S. HRG. 99-8

DRUG MONEY LAUNDERING

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 571

TO AMEND SUBCHAPTER II OF CHAPTER 53 OF TITLE 31, UNITED STATES CODE, RELATING TO CURRENCY REPORTS

JANUARY 28, 1985—NEW YORK, NY

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DRUG MONEY LAUNDERING

MONDAY, JANUARY 28, 1985

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
New York, NY.

The committee met at 10:40 a.m. in the U.S. Courthouse, 1 Federal Plaza, New York, NY, Senator Alfonse M. D'Amato, presiding.

OPENING STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. Good morning. This hearing of the Senate Committee on Banking, Housing, and Urban Affairs is called to order.

The subject of this hearing is drug money laundering and legislation to improve enforcement and to increase penalties for the laundering of drug money.

I want to thank the very distinguished chairman of this committee, Jake Garn, for authorizing today's hearing.

Today, we are going to see what can be done to pierce the veil of secrecy drug traffickers use to finance their criminal enterprises, evade taxes, and launder up to $100 billion in drug money every year.

I want to stress at the outset that there is a direct link between the billions of dollars being laundered through American financial institutions and the heroin, cocaine, and other drugs being sold on the streets—even right outside this building today.

To illustrate in detail the link between money laundering and the drugs that cause 60 percent of the crime in this country, we will hear today from a major Government material witness who helped convict several members of a cocaine distribution ring.

We will also hear from another witness who laundered millions of dollars in drug money before our law enforcement agencies caught up with him.

These witnesses will confirm the links between major drug dealers and a network of professional money launderers who corrupt bank officers and foreign officials, and who repeatedly evade detection.

My proposed legislation, the Drug Money Seizure Act, which is also a topic of this hearing, has three very simple provisions.

First, it provides for a central subpoena power in the Treasury Department to facilitate enforcement of the Bank Secrecy Law.

There is a clear need to supplement the Justice Department's criminal prosecutions with stiffer civil penalties.

My bill enables the Treasury Department to review systematically suspicious domestic deposits, all cash, check, wire, and other

transfers to offshore banks that are so frequently used to launder and conceal drug money.

This, in turn, will make it much easier to track down the drug traffickers and to impose penalties on them great enough to make their illegal activities unprofitable.

Second, this bill would strengthen the penalties against financial institutions and their employees for willfully violating the law's reporting requirements.

In order to promote compliance with the reporting requirements, this penalty would be raised to the full amount of the transaction involved.

Third, my legislation would eliminate the law that now provides no penalty at all for individuals who willfully fail to file reports on their transfers of money to foreign banks.

The Drug Money Seizure Act provides for a penalty for these individuals—again, up to the full amount of the foreign transaction involved in the violation—so that anyone willfully violating the reporting requirements risks losing all the money involved.

[Copy of proposed bill follows:]

99TH CONGRESS
1ST SESSION

S. 571

To amend subchapter II of chapter 53 of title 31, United States Code, relating to currency reports.

IN THE SENATE OF THE UNITED STATES

MARCH 5 (legislative day, FEBRUARY 18), 1985

Mr. D'AMATO (for himself, Mrs. HAWKINS, Mr. RUDMAN, Mr. PROXMIRE, Mr. ABDNOR, Mr. TRIBLE, Mr. RIEGLE, and Mr. WILSON) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To amend subchapter II of chapter 53 of title 31, United States Code, relating to currency reports.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Drug Money Seizure Act".

SECTION 2. Section 5318 of title 31, United States Code, is amended—

(1) by inserting "(a)" before "The";

(2) by inserting ", except as provided in subsection (c)" before the semicolon at the end of paragraph (1);

(3) by striking out "and" at the end of paragraph (2);

(4) by redesignating paragraph (3) as paragraph (4);

(5) by inserting after paragraph (2) the following:

"(3)(A) examine any books, papers, records, or other data of domestic financial institutions pursuant to the recordkeeping and reporting requirements under this subchapter;

"(B) summon an officer or employee of a financial institution, or any person having possession, custody, or care of the reports or records required under the subchapter, to appear before the Secretary of the Treasury or his delegate at a time and place named in the summons and to produce such books, papers, records, or other data, and to give testimony, under oath, as may be relevant material to such inquiry; and

"(C) take such testimony of the officer, employee, or person having possession of the relevant reports or records, under oath, as may be relevant or material to such inquiry; and"; and

(6) by adding at the end thereof the following:

"(b) The purposes for which the Secretary of the Treasury may take any action described in paragraph (3) of subsection (a) include the purpose of investigating any offense connected with the administration or enforcement of this subchapter, section 21 of the Federal Deposit Insurance Act, section 411 of the National Housing Act, or chapter 2 of Public Law 91–508.

"(c)(1) The Secretary of the Treasury may delegate the powers conferred by subsection (a)(3) to an appropriate supervising agency.

"(2) A summons may be issued under subsection (a)(3)(B) only by, or with the approval of, the Secretary of the Treasury or a supervisory level delegate of an appropriate Treasury bureau.".

SEC. 3. Section 5321(a) of title 31, United States Code, is amended—

(1) by striking out the first sentence of paragraph (1) and inserting in lieu the following: "A domestic financial institution, and a partner, director, officer, or employee of a domestic financial institution, willfully violating this subchapter or a regulation prescribed under this subchapter (except section 5315 of this title or a regulation prescribed under section 5315) or causing such a violation is liable to the United States Government for a civil penalty of not more than—

"(A) the amount of the transaction where the violation involves a transaction reporting requirement, or

"(B) $10,000 for any other violation."; and

(2) by adding at the end thereof the following:

"(4) A person willfully violating the provisions of section 5314 of this title or of a regulation prescribed under section 5314 is liable to the United States Government for a civil penalty of not more than the amount of the foreign transaction or foreign account involved in the violation.".

SEC. 4. Section 5312(a)(5) of title 31, United States Code, is amended to read as follows:

"(5) 'United States' means the States of the United States, the District of Columbia, and, when the Secretary prescribes by regulation, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, the Northern Marianas, American Samoa, the Trust Territory, any other territory or possession of the United States, or a military diplomatic establishment.".

Senator D'AMATO. Money laundering permits the drug traffickers to evade taxes and to conduct their operations and finance their drug networks behind a veil of secrecy. It allows them to buy more drugs for resale, and to acquire the planes, boats, and front corporations they use to smuggle drugs into the United States.

I am calling for a new emphasis on money laundering as a powerful weapon against the major drug trafficking groups.

If the cocaine suppliers in Colombia, Bolivia, and Peru do not get paid, and if the heroin suppliers in Mexico, the Middle East, or Southeast Asia do not get paid, their cash flow is cut off, expected profits never materialize, and their drug trafficking organizations are crippled.

We must strengthen the Bank Secrecy Act: (1) To identify suspicious movements of American currency, both within the United States and in and out of the country; (2) to trace that money to its owners; and (3) to identify them as drug dealers or as persons engaged in other major criminal activities.

Despite recent improvements in the enforcement of the Bank Secrecy Act, and in the law itself, billions of dollars of drug money are still moved through American financial institutions and exported and imported annually.

Tens of billions of dollars are laundered each year through countries like Panama, the Bahamas, and the Cayman Islands, where the banking laws prevent scrutiny and forbid the release of information on depositors.

Other laws protect the anonymity of the owners of corporations based in these countries. Inadequate recordkeeping and unskilled or corrupt officials and administrators also hinder our law enforcement efforts.

I would now like to welcome our first panel: John M. Walker, Assistant Secretary of Treasury for Enforcement; William von Raab, Commissioner of the U.S. Customs Service; and Richard Wassenaar, Assistant Commissioner of the IRS for Criminal Investigations.

I know that each of you has prepared a lengthy testimony. In order to save time, I will ask you to summarize all or any part of that testimony that you wish.

For the record, we will receive the testimony as though read in its entirety.

Mr. WALKER. Thank you very much, Mr. Chairman.

Senator D'AMATO. Let me state for the record again that it has been my pleasure to have the opportunity to work with two of our first three witnesses.

I have not had the opportunity to work with Mr. Wassenaar of the IRS who has been doing an outstanding job.

John Walker's leadership in the Department of Treasury Office of Enforcement and Operations has set a standard of exemplary public service that is second to none.

Commissioner von Raab, I extend my gratitude to you for your fortitude with respect to the great need to fight drug smuggling and all of the other areas.

We are certainly delighted to have such a distinguished panel of individuals such as yourselves testifying.

JOHN M. WALKER, JR., ASSISTANT SECRETARY OF THE TREASURY FOR ENFORCEMENT AND OPERATIONS

Mr. WALKER. Mr. Chairman, I am pleased to appear before you to report on steps the Treasury Department has taken, in conjunction with the initiatives of this administration, to attack the money laundering that supports drug trafficking and other organized crime.

At the outset, I would like to express Treasury's appreciation for your efforts on behalf of law enforcement in general, and Treasury law enforcement in particular.

SUPPORTIVE LEGISLATION

You have advanced our Government's fight against crime through your support for the President's legislative initiatives, which were enacted last session as the Comprehensive Crime Control Act of 1984. You have developed additional legislation to fight money laundering by strengthening the Bank Secrecy Act.

In addition, you have sponsored legislation banning the manufacture of armor-piercing ammunition, and secured congressional approval for enhancement of the enforcement resources of the U.S. Customs Service.

In particular, as a result of your leadership, Customs has increased its inspectional and investigative forces here in New York to improve its ability to detect and seize drugs, particularly heroin, being smuggled into the country.

Mr. Chairman, as shown by a Roper poll reported last year in USA Today, crime and drugs constitute the No. 1 problem on the minds of Americans today, ranking ahead of unemployment, inflation, health costs, and nuclear arms limitations.

The menace of drug abuse simply must be brought under control. This administration considers law enforcement a top priority and, under President Reagan's leadership, we have made important strides in the fight against crime and against drug trafficking in particular.

Our major initiatives, including the South Florida Task Force, the Organized Crime Drug Enforcement Task Forces, and the National Narcotics Border Interdiction System, are achieving successes every day. But our battle has just started.

I am reminded of the words of Sir Winston Churchill, spoken at the successful completion of the campaign in North Africa:

> Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning.

In my testimony today, I will describe a nontraditional weapon, new in our arsenal against organized crime and drug trafficking, one that has been vital to the excellent start that we have made. That weapon is the financial investigation that allows us to go after the money that is at the heart of every criminal enterprise.

I will also explain problems posed by money laundering and actions taken by Treasury, together with other departments and agencies, to solve them.

I will briefly summarize how Customs and and IRS are using the Bank Secrecy Act to uncover and disrupt criminal organizations. I

will then discuss new international and regulatory measures that will further improve our enforcement in this area.

THE MONEY LAUNDERING PROBLEM

The seriousness of the money laundering problem facing us cannot be overstated. Just as drug abuse has infiltrated every group and social stratum in our society, the lure of easy, almost limitless wealth has drawn previously law-abiding individuals into providing professional financial services to drug trafficking organizations.

Professional financial services are essential to a narcotics organization: They create a protective shield between those who actually move drugs into this country and the law enforcement investigators attempting to uncover their operations.

They provide this cover by concealing assets, forming shell corporations, arranging false loans, employing couriers to carry bales of cash, making wire transfers, and using any other scheme, limited only by the human imagination, to remove the assets and profits of the criminal organization from the scrutiny of law enforcement and the general public.

The money laundering and illicit financing that support the drug trade are not carried out solely by what is commonly perceived as the criminal underworld.

Our financial investigations have exposed members of a wealthy, highly skilled, professional class, many of whom do not have previous criminal records, some of whom are highly respected members of their communities. They are attorneys, accountants, bankers, and money brokers.

Nor is money laundering confined to any particular region of the country. The problem is a national problem, one that is nearly as pervasive as the drug abuse problem that underlies it.

Wholly apart from the enormous social costs of the drug trafficking that it supports, money laundering itself seriously cripples our society.

It undermines trust in our financial institutions. It provides conduits for tax evasion and growth opportunities for various other organized criminal enterprises—including illegal gambling, loansharking, prostitution, and extortion.

But its most insidious effect, Mr. Chairman, as you have so often characterized, is it provides the financial support for further criminal activity, especially new narcotics ventures.

I mentioned a moment ago that the money launderer uses a broad array of schemes to conduct his illicit activities.

Commissioner von Raab, in his testimony today, will cite a number of specific examples of these schemes drawn from actual cases. Rather than repeat them here, I would like to give a single illustration of how a money launderer, using a relatively simple scheme, can frustrate law enforcement efforts.

In this particular chart, a drug trafficker hands a money launderer $10 million in cash to be washed. The launderer sets up a phony company in the United States to eventually receive the laundered funds. He then has couriers physically transport the pro-

ceeds to Panama and deposit them in corporate accounts in Panama.

Because Panamanian accounts are protected by stringent local bank secrecy laws and the corporate account holders are also protected by attorney confidentiality, U.S. Federal investigators have no means of determining their true ownership.

The launderer then arranges to have the $10 million sent to a corporation in the Bahamas.

Bahamian law, as you know, provides both secrecy for bank accounts and corporate secrecy. U.S. law enforcement is not able to pierce the corporate veil to learn the true ownership of the company or companies involved.

Finally, the Bahamian company pretends to loan the $10 million to the front corporation that the money launderer established for his criminal client in the United States. In this way the money launderer accomplishes his task of repatriating the funds in the form of a nontaxable loan which might then be reinvested in a legitimate business, for example, real estate.

In addition, he also creates a pretext for a tax deduction on the interest paid on the loans. These interest payments, of course, are fraudulent since, in effect, they consist of payments to oneself and are in no respect interest on any actual indebtedness.

In my example, the money launderer, apart from the subsequent tax offenses, clearly violates the law when he does not report the transportation of currency as it leaves the country.

Without some hard intelligence regarding this transportation, however, this activity is exceedingly difficult for Customs to detect.

Senator D'AMATO. If I may interrupt you at this point.

Before he can get the $10 million into Panama, he has to undertake a series of activities to put that money in a moveable form. I think later on Commissioner von Raab testifies as to why this money laundering is necessary. No. 1, they will not carry this money out in huge suitcases because it provides a problem to them: detection, safety problems, and the possibility someone will hold them up for their moneys.

If you take $1 million in $10 bills and you can stack them up 8 feet high, that's a lot of money to try to move.

So the money launderer will first go to various financial institutions within this country.

Mr. WALKER. He can do that by either bribing officials or causing them to misreport the transaction.

Senator D'AMATO. Not report the transaction of $10,000 or more?

Mr. WALKER. That's correct.

Your legislation will get to that problem.

As I said, the schemes are limitless as the mind can imagine and may divide the moneys into smaller accounts and try to get it out of the country.

It eventually will come back to an American bank. The phony corporation will obviously have bank accounts.

When the false loan proceeds are returned, those records will be reachable on the other end of the cycling process by your proposed process. You can get at it two ways then.

Additionally, the tax violations he orchestrates are difficult for the IRS to uncover and prove, for Bahamian law prevents IRS investigators from developing evidence that the loan is a sham.

PRESENT TOOLS FOR PROSECUTION OF TRAFFICKERS

Treasury has uncovered schemes similar to the example I have described by using the tools the Bank Secrecy Act provides.

While foreign bank and corporate secrecy laws hinder the investigation of offshore money laundering, the act and its implementing regulations still make it possible to pursue leads based upon financial information.

In this respect, the Bank Secrecy Act presents a significant hurdle, perhaps the most significant hurdle, that the money launderer must overcome.

Another major threat to the money launderer is the Internal Revenue Code. The Internal Revenue Service targets over 25 percent of its direct investigative time to the prosecution of drug traffickers for tax violations.

The IRS, along with Customs Service, also plays a major role in enforcing the Bank Secrecy Act.

Senator D'AMATO. This 25 percent figure, is that a recent development? Do you have any statistics? Has that increased notably in the last few years?

Mr. WASSENAAR. I don't have the statistics with me today, but there has been a very substantial increase in recent years and it has been very successful, as Mr. Walker has pointed out.

Senator D'AMATO. Without breaching any confidentiality, how many major cases are you undertaking nationwide?

Mr. WASSENAAR. We have in our inventory approximately 700 tax evasion cases that deal specifically with drug traffickers or financiers who have been involved with drug traffickers.

Senator D'AMATO. So that we have 700 cases nationwide linking IRS violations with criminal activity in the narcotics area?

Mr. WASSENAAR. That's correct. Most of the drug traffickers realize substantial profits and are very hesitant to show the substantial profits.

Senator D'AMATO. That's where we have to get them.

I have always believed that is the one area where they are vulnerable, and in organized crime you certainly could not show that, as in the case of prohibition, the IRS was the huge weapon with respect to such criminal activity.

Mr. WASSENAAR. We have a substantial commitment of agents working on drug trafficking.

Senator D'AMATO. I was not aware of that.

I believe that will become the centerpiece in this battle. That is certainly the core.

Mr. WASSENAAR. We agree with that investigation.

Mr. WALKER. However, it is clear from the spectrum of methods used by drug traffickers and their financial agents that any single law enforcement approach—be it tracking the money or tracking the drugs—is not enough.

EFFECTIVENESS OF TASK FORCE CONCEPT

The task force concept, which Treasury and this administration have employed to combat money laundering, has shown substantial promise in part because it combines all of the statutory weapons we have available, including various narcotics statutes, the Bank Secrecy Act, the Internal Revenue Code, and RICO.

Task force investigations are commonly coordinated by Federal prosecutors and integrated with the grand jury process.

Task forces are effective because they combine the particular investigative skills of different law enforcement agencies. IRS, Customs, DEA, ATF, and the FBI all participate in various task forces now investigating money laundering and organized crime.

Agencies working in combination produce better results because they can maximize the exchange of information which might otherwise be impeded by agency parochialism.

A third advantage is that financial investigative techniques, focusing on the financial underpinnings of a drug organization, are fully integrated into the overall investigative process.

The Treasury Department's own financial task forces, of which there were only 2 when this administration began, now number 40.

Situated throughout the United States, they direct the investigative work of IRS and Customs agents against the financial base of every type of criminal organization.

One of the first task forces, Operation Greenback in Miami, has served as the model. In his testimony today, Commissioner von Raab will present some statistics to give you an indication of the effect that these Treasury task forces have had.

As you know, Mr. Chairman, financial investigations are an essential component of a larger, administrationwide initiative—the Organized Crime Drug Enforcement Task Force Program [OCDE].

This is wholly independent of the Treasury financial task forces to which I just referred.

President Reagan announced his intention to create these OCDE task forces in October 1982. By early 1983, 12 were in place, but have been fully operational for only 18 months; a 13th was added this year.

In this short time the OCDE task forces have initiated approximately 800 investigations. They have indicted over 4,000 drug traffickers and money launderers, of whom more than 1,500 have been convicted.

I hasten to point out that the high defendants-to-cases ratio is the intended result of a deliberate targeting of criminal organizations rather than individual offenders.

Treasury has played a major role in the OCDE task forces from their initiation. In fact, fully two-thirds of the OCDE investigations have a major financial component.

IRS has contributed 220 special agents to these task forces and Customs has contributed 183. Treasury's Bureau of Alcohol, Tobacco and Firearms has contributed 84 special agents to investigate the explosives, firearms, and arson violations that result from drug trafficking and organized crime.

All of the Treasury task forces, as well as all of the President's OCDE task forces, now use the information and investigative sup-

port of the Treasury Financial Law Enforcement Center [TFLEC], which we created within Customs in 1982.

TFLEC is both a computerized clearinghouse and an analytical center for information obtained from Bank Secrecy Act reporting. It provides intelligence, generates leads for new investigations, and provides analytical support for existing ones.

Commissioner von Raab will describe the functions of TFLEC in further detail.

Mr. Chairman, in addition to the statistics I have mentioned, the effectiveness of our financial investigations can be demonstrated by the types of cases they have produced.

SUCCESS OF TASK FORCES AGAINST 18 ORGANIZATIONS

Treasury's Greenback and El Dorado task forces have, in the last few years destroyed or targeted 18 major money laundering organizations.

The following major cases are ranked according to the documented size of the operation involved. The chart lists the 18 cases.

Senator D'AMATO. Have you been able to get any good convictions?

Mr. WALKER. Yes, we have good convictions on most of the cases in the top six.

Senator D'AMATO. Those convictions are pretty recent and they are just starting to get their time, so maybe we will get some cooperation, too.

Mr. WALKER. Yes, as you correctly pointed out, when you can get to the top money launderers, they are the ones with the information of who gave them the money.

Senator D'AMATO. I wonder if we can get a report which will be helpful to the committee with respect to what efforts are being made, particularly in these cases where there have been convictions on the money laundering with respect to the seizure of drugs and money, the success you have had and what else is in process. It will be illuminating to this committee and to the public at large.

Mr. WALKER. We will be happy to provide that information for you.

CONVICTIONS AND PENDING CASES ON MONEY LAUNDERING

	Dollars laundered	Timeframe
Cases that have already resulted in convictions:		
Isaac Katten	500,000,000	3 years.
Beno Ghitis	268,000,000	5 months.
Orozco	145,000,000	13 months.
Armenteros, et al.	130,000,000	8 years.
Great American Bank	95,000,000	13 months.
Zapata, et al.	17,000,000	8 months.
Subtotal	1,155,000,000	

CONVICTIONS AND PENDING CASES ON MONEY LAUNDERING—Continued

	Dollars laundered	Timeframe
Pending cases:		
A	300,000,000	3 years.
B	300,000,000	8 years.
C	250,000,000	20 months.
D	230,000,000	3 years.
E	180,000,000	2 years.
F	140,000,000	8 months.
G	70,000,000	8 months.
H	65,000,000	1 year.
I	60,000,000	1 year.
J	20,000,000	18 months.
K	14,000,000	1 year.
L	9,000,000	3 months.
Subtotal	1,638,000,000	
Total	2,793,000,000	

The size of these money laundering organizations gives an indication of the enormous wealth generated by the narcotics trade.

While south Florida remains the area of the highest concentration of international drug trafficking and money laundering, the OCDE task forces are uncovering major drug and organized crime cases in New York and elsewhere. Only a fully coordinated, nationwide approach can be expected to bring the problem under control.

Here in New York, I am sure many citizens are familiar with the Orozco investigation, which destroyed a money laundering organization that had laundered in excess of $151 million and transported $42 million in currency from Panama to the United States in a 13-month period.

It was the largest case of its kind ever prosecuted in the New York area.

Eduardo Orozco and six of his associates were convicted or pleaded guilty. Orozco himself was sentenced to 8 years imprisonment and fined $1,035,000. The *Orozco* case began with financial information generated under the Bank Secrecy Act. It was investigated jointly by Customs, DEA, and IRS, and supported to a great extent by TFLEC analyses.

Another case in New York attracted national attention last April when an OCDE task force investigation, known as the "Pizza Connection" investigation, resulted in the indictment of 31 individuals on Federal charges stemming from heroin importation and distribution.

In 5 years, this organization distributed 1.65 billion dollars' worth of heroin and laundered at least $28 million in heroin proceeds, principally through banks in foreign countries, in a 33-month period.

The case is currently scheduled for trial in June in the southern district of New York.

A second investigation by the New York OCDE task force culminated last June, after a 1½-year investigation, in the indictment of the Global Union Bank and a former bank officer.

The charges resulted from alleged reporting violations under the Bank Secrecy Act in connection with approximately $1.1 million in

cash deposits. Assistant Commissioner Wassenaar will describe this case in more detail in his testimony today.

Mr. Chairman, cases similar to these are under investigation all across the United States. For instance, last June 5, a coordinated interagency investigation by the President's South Carolina OCDE task force resulted in the indictment of 31 individuals for their alleged operation of a large marijuana importation scheme.

The suspects are believed to have imported over $100 million worth of marijuana and hashish into east coast States in the past 6 years.

On January 9 of this year an OCDE task force investigation in Virginia resulted in the indictment of 26 individuals for their alleged participation in a huge marijuana importation scheme.

In addition to charges under Federal drug laws, including continuous criminal enterprise law, the indictment includes charges for currency violations.

The operation is believed to have realized profits of $100 million over a 10-year period and to have laundered proceeds through retail stores across the Nation that deal in oriental rugs and gems.

The Government has seized a $1.7 million farm near Leesburg, VA, in connection with this case and is seeking its forfeiture under the continuing criminal enterprise law. The Government has also sought forfeiture of $13 million in other assets.

USE OF OFFSHORE BANKS

Money launderers have reacted to this administration's crackdown on domestic money laundering by increasing their use of offshore banks in countries with strict bank secrecy laws.

We have responded to this trend by seeking agreements from these offshore havens to provide the United States disclosure of financial and banking information for law enforcement purposes.

Last July 26, as a result of the efforts of the Departments of Justice and Treasury, the United States concluded an agreement with the United Kingdom allowing United States prosecutors to secure documents located in the Cayman Islands.

When implementing legislation by the Cayman Islands comes into effect, U.S. law enforcement will have a mechanism to obtain documents relevant to criminal or civil proceedings arising from narcotics activity.

In addition, we are currently negotiating with law enforcement officials of the Republic of Panama to secure an agreement for the exchange of financial information connected with money laundering. We will continue to push for progress on this front.

To respond further to the trend in offshore money laundering, Treasury has proposed regulations under which the Secretary can require specified U.S. financial institutions to report to Treasury their transactions with foreign financial institutions.

In exercising this new authority, Treasury would determine which foreign financial institutions to make subject to reporting on the basis of available information indicating unusual transactions.

We would require reporting on a selective basis, mindful of the need to avoid unnecessary interference with legitimate commercial transactions.

Overall, we believe it will allow us to focus our analytical resources in a way that is more likely to uncover potential illicit activity for specific investigative targeting.

Another problem we have recently confronted is the use of casinos to launder illicit cash. Treasury has become aware that drug traffickers and money launderers are using casinos to exchange and transfer proceeds of illegal activity.

Last year, in response to this concern, we published proposed regulations to include casinos in the class of financial institutions subject to reporting and recordkeeping requirements under the Bank Secrecy Act.

Because casinos are also closely regulated by State agencies, we included a provision under which Treasury will consider plans submitted by States that would provide for a system of reporting and recordkeeping within a State regulatory scheme that meets the objectives of Treasury's proposed rule.

If Treasury considers a State plan fully acceptable, it will exempt the casinos in that State from the Federal reporting and recordkeeping requirements under title 31.

We believe these proposed regulatory changes will facilitate our investigative work and, at the same time, create a stronger deterrent to the financial crimes associated with drug trafficking.

The international efforts and regulatory changes that I have mentioned will, I believe, increase Treasury's effectiveness in combating money laundering.

But, as you know, Mr. Chairman, the challenge money laundering poses for law enforcement is both enormous and continuing. We must be vigilant in seeking new methods of meeting this challenge.

RECOMMENDATIONS OF COMMISSION ON ORGANIZED CRIME

Last October, the President's Commission on Organized Crime issued an interim report on the money laundering threat. It contained a number of recommendations for enhancing the effectiveness of the Bank Secrecy Act.

We have studied carefully the recommendations dealing with administrative and regulatory matters, and we have started a program to implement them where practicable.

As you are aware, other recommendations offered by the Commission call for new legislation. Some of these legislative recommendations were achieved with the passage of the Comprehensive Crime Control Act of 1984, which you supported.

Still others will await administration and congressional consideration.

One such recommendation would involve changes to the Right to Financial Privacy Act. The Commission concluded that changes are needed to allow bank employees greater latitude in informing law enforcement agencies of suspicious financial transactions.

Another recommendation would establish money laundering as a separate offense under Federal criminal law.

In this issue under current law, if a bank employee sees a suspicious transaction, the most he can tell us is that there is a suspicious transaction going on and he is prevented from telling us what

the transaction is under the Right to Privacy Act. Therefore, we are stuck.

What we need is more information provided by conscientious, honest bank employees who see this activity going on.

We would be interested in relaxing that Right to Financial Privacy Act with a view toward enabling law enforcement to have better access with respect to this kind of information.

Senator D'AMATO. Maybe we will hold a hearing on that, therefore, bringing the entire banking community down on me in one fell swoop.

We are talking about the needs and not the wholesale rummaging through accounts of legitimate customers or transactions. We are talking about huge amounts of cash coming in illegally.

Mr. WALKER. In conclusion, I want to express my gratitude to you, Mr. Chairman, for your support of the amendments to the Currency and Foreign Transactions Reporting Act which were included in the President's Comprehensive Crime Control Act.

The currency amendments provide long-needed measures for our battle against money laundering.

I would also like to take this opportunity to give recognition, once again, to your successful efforts to obtain 100 additional customs inspectors and investigators for the New York region.

This enhanced manpower is particularly valuable in enabling customs to be more effective in fighting the smuggling of heroin, the drug that over the years has had such devastating consequences for the people of New York.

I know I speak for the entire law enforcement community in expressing appreciation and thanks for your support in the struggle against crime and drug abuse in our society.

This concludes my prepared remarks. I would be pleased to answer any questions that the committee may have.

[Complete statement of Mr. John M. Walker follows:]

FOR RELEASE ON DELIVERY
JANUARY 28, 1985

STATEMENT OF THE HONORABLE JOHN M. WALKER, JR.
ASSISTANT SECRETARY (ENFORCEMENT & OPERATIONS)
U.S. DEPARTMENT OF THE TREASURY
BEFORE THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

MR. CHAIRMAN, I AM PLEASED TO APPEAR BEFORE YOU TO REPORT ON STEPS THE TREASURY DEPARTMENT HAS TAKEN, IN CONJUNCTION WITH THE INITIATIVES OF THIS ADMINISTRATION, TO ATTACK THE MONEY LAUNDERING THAT SUPPORTS DRUG TRAFFICKING AND OTHER ORGANIZED CRIME.

AT THE OUTSET, I WOULD LIKE TO EXPRESS TREASURY'S APPRECIATION FOR YOUR EFFORTS ON BEHALF OF LAW ENFORCEMENT IN GENERAL, AND TREASURY LAW ENFORCEMENT IN PARTICULAR. YOU HAVE ADVANCED OUR GOVERNMENT'S FIGHT AGAINST CRIME THROUGH YOUR SUPPORT FOR THE PRESIDENT'S LEGISLATIVE INITIATIVES, WHICH WERE ENACTED LAST SESSION AS THE COMPREHENSIVE CRIME CONTROL ACT OF 1984. YOU HAVE DEVELOPED ADDITIONAL LEGISLATION TO FIGHT MONEY LAUNDERING BY STRENGTHENING THE BANK SECRECY ACT. IN ADDITION, YOU HAVE SPONSORED LEGISLATION BANNING THE MANUFACTURE OF ARMOR-PIERCING AMMUNITION, AND SECURED CONGRESSIONAL APPROVAL FOR ENHANCEMENT OF THE ENFORCEMENT RESOURCES OF THE U.S. CUSTOMS SERVICE. IN PARTICULAR, AS A RESULT OF YOUR LEADERSHIP, CUSTOMS HAS INCREASED ITS INSPECTIONAL AND INVESTIGATIVE FORCES HERE IN NEW YORK TO IMPROVE ITS ABILITY TO DETECT AND SEIZE DRUGS, PARTICULARLY HEROIN, BEING SMUGGLED INTO THE COUNTRY.

Mr. Chairman, as shown by a Roper poll reported last year in USA Today, crime and drugs constitute the number one problem on the minds of Americans today, ranking ahead of unemployment, inflation, health costs and nuclear arms limitation. The menace of drug abuse simply must be brought under control. This Administration considers law enforcement a top priority and, under President Reagan's leadership, we have made important strides in the fight against crime and against drug trafficking in particular. Our major initiatives, including the South Florida Task Force, the Organized Crime Drug Enforcement Task Forces and the National Narcotics Border Interdiction System, are achieving successes every day. But our battle has just started. I am reminded of the words of Sir Winston Churchill, spoken at the successful completion of the campaign in North Africa: "Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."

In my testimony today, I will describe a nontraditional weapon in our arsenal against organized crime and drug trafficking, one that has been vital to the excellent start that we have made. That weapon is the financial investigation that allows us to go after the money that is at the heart of every criminal enterprise. I will also explain problems posed by money laundering and actions taken by Treasury, together with other departments and agencies, to solve them. I will briefly summarize how

CUSTOMS AND IRS ARE USING THE BANK SECRECY ACT TO UNCOVER AND DISRUPT CRIMINAL ORGANIZATIONS. I WILL THEN DISCUSS NEW INTERNATIONAL AND REGULATORY MEASURES THAT WILL FURTHER IMPROVE OUR ENFORCEMENT IN THIS AREA.

THE MONEY LAUNDERING PROBLEM

THE SERIOUSNESS OF THE MONEY LAUNDERING PROBLEM FACING US CANNOT BE OVERSTATED. JUST AS DRUG ABUSE HAS INFILTRATED EVERY GROUP AND SOCIAL STRATUM IN OUR SOCIETY, THE LURE OF EASY, ALMOST LIMITLESS WEALTH HAS DRAWN PREVIOUSLY LAW ABIDING INDIVIDUALS INTO PROVIDING PROFESSIONAL FINANCIAL SERVICES TO DRUG TRAFFICKING ORGANIZATIONS. PROFESSIONAL FINANCIAL SERVICES ARE ESSENTIAL TO A NARCOTICS ORGANIZATION: THEY CREATE A PROTECTIVE SHIELD BETWEEN THOSE WHO ACTUALLY MOVE DRUGS INTO THIS COUNTRY AND THE LAW ENFORCEMENT INVESTIGATORS ATTEMPTING TO UNCOVER THEIR OPERATIONS. THEY PROVIDE THIS COVER BY CONCEALING ASSETS, FORMING SHELL CORPORATIONS, ARRANGING FALSE LOANS, EMPLOYING COURIERS TO CARRY BALES OF CASH, MAKING WIRE TRANSFERS, AND USING ANY OTHER SCHEME, LIMITED ONLY BY THE HUMAN IMAGINATION, TO REMOVE THE ASSETS AND PROFITS OF THE CRIMINAL ORGANIZATION FROM THE SCRUTINY OF LAW ENFORCEMENT AND THE GENERAL PUBLIC.

THE MONEY LAUNDERING AND ILLICIT FINANCING THAT SUPPORT THE DRUG TRADE ARE NOT CARRIED OUT SOLELY BY WHAT IS COMMONLY PERCEIVED AS THE CRIMINAL UNDERWORLD. OUR FINANCIAL INVESTIGATIONS HAVE EXPOSED MEMBERS OF A WEALTHY, HIGHLY SKILLED, PROFESSIONAL

CLASS, MANY OF WHOM DO NOT HAVE PREVIOUS CRIMINAL RECORDS, SOME OF WHOM ARE HIGHLY RESPECTED MEMBERS OF THEIR COMMUNITIES. THEY ARE ATTORNEYS, ACCOUNTANTS, BANKERS AND MONEY BROKERS.

NOR IS MONEY LAUNDERING CONFINED TO ANY PARTICULAR REGION OF THE COUNTRY. THE PROBLEM IS A NATIONAL PROBLEM, ONE THAT IS NEARLY AS PERVASIVE AS THE DRUG ABUSE PROBLEM THAT UNDERLIES IT. WHOLLY APART FROM THE ENORMOUS SOCIAL COSTS OF THE DRUG TRAFFICKING THAT IT SUPPORTS, MONEY LAUNDERING ITSELF SERIOUSLY CRIPPLES OUR SOCIETY. IT UNDERMINES TRUST IN OUR FINANCIAL INSTITUTIONS. IT PROVIDES CONDUITS FOR TAX EVASION AND GROWTH OPPORTUNITIES FOR VARIOUS OTHER ORGANIZED CRIMINAL ENTERPRISES -- INCLUDING ILLEGAL GAMBLING, LOANSHARKING, PROSTITUTION AND EXTORTION. BUT ITS MOST INSIDIOUS EFFECT IS TO PROVIDE THE FINANCIAL SUPPORT FOR FURTHER CRIMINAL ACTIVITY, ESPECIALLY NEW NARCOTICS VENTURES.

I MENTIONED A MOMENT AGO THAT THE MONEY LAUNDERER USES A BROAD ARRAY OF SCHEMES TO CONDUCT HIS ILLICIT ACTIVITIES. COMMISSIONER VON RAAB, IN HIS TESTIMONY TODAY, WILL CITE A NUMBER OF SPECIFIC EXAMPLES OF THESE SCHEMES DRAWN FROM ACTUAL CASES. RATHER THAN REPEAT THEM HERE, I WOULD LIKE TO GIVE A SINGLE ILLUSTRATION OF HOW A MONEY LAUNDERER, USING A RELATIVELY SIMPLE SCHEME, CAN FRUSTRATE LAW ENFORCEMENT EFFORTS. A DRUG TRAFFICKER HANDS HIM, SAY, $10,000,000 IN CASH TO BE WASHED. THE LAUNDERER SETS UP A PHONY COMPANY IN THE UNITED STATES TO EVENTUALLY RECEIVE THE LAUNDERED FUNDS. HE THEN HAS COURIERS PHYSICALLY CARRY THE NARCOTICS PROCEEDS TO PANAMA AND DEPOSIT THEM INTO

CORPORATE ACCOUNTS THERE. BECAUSE PANAMANIAN ACCOUNTS ARE PROTECTED BY STRINGENT LOCAL BANK SECRECY LAWS AND THE CORPORATE ACCOUNT HOLDERS ARE ALSO PROTECTED BY ATTORNEY CONFIDENTIALITY, U.S. FEDERAL INVESTIGATORS HAVE NO MEANS OF DETERMINING THEIR TRUE OWNERSHIP. THE LAUNDERER THEN ARRANGES TO HAVE THE $10,000,000 WIRED TO A CORPORATION IN THE BAHAMAS. BAHAMIAN LAW, AS YOU KNOW, PROVIDES BOTH SECRECY FOR BANK ACCOUNTS AND CORPORATE SECRECY. U.S. LAW ENFORCEMENT IS NOT ABLE TO "PIERCE THE CORPORATE VEIL" TO LEARN THE TRUE OWNERSHIP OF THE COMPANY OR COMPANIES INVOLVED. FINALLY, THE BAHAMIAN COMPANY PRETENDS TO LOAN THE $10,000,000 TO THE FRONT CORPORATION THAT THE MONEY LAUNDERER ESTABLISHED FOR HIS CRIMINAL CLIENT IN THE UNITED STATES. IN THIS WAY, THE MONEY LAUNDERER ACCOMPLISHES HIS TASK OF REPATRIATING THE FUNDS IN THE FORM OF A NONTAXABLE LOAN WHICH MIGHT THEN BE REINVESTED IN A LEGITIMATE BUSINESS, FOR EXAMPLE, REAL ESTATE. IN ADDITION, HE ALSO CREATES A PRETEXT FOR A TAX DEDUCTION ON THE INTEREST PAID ON THE LOANS. THESE INTEREST PAYMENTS, OF COURSE, ARE FRAUDULENT SINCE, IN EFFECT, THEY CONSIST OF PAYMENTS TO ONESELF AND ARE IN NO RESPECT INTEREST ON ANY ACTUAL INDEBTEDNESS.

IN MY EXAMPLE, THE MONEY LAUNDERER, APART FROM THE SUBSEQUENT TAX OFFENSES, CLEARLY VIOLATES THE LAW WHEN HE DOES NOT REPORT THE TRANSPORTATION OF CURRENCY AS IT LEAVES THE COUNTRY. WITHOUT SOME HARD INTELLIGENCE REGARDING THIS TRANSPORTATION, HOWEVER, THIS ACTIVITY IS EXCEEDINGLY DIFFICULT FOR CUSTOMS TO DETECT. ADDITIONALLY, THE TAX VIOLATIONS HE ORCHESTRATES ARE DIFFICULT FOR IRS TO UNCOVER AND PROVE, FOR BAHAMIAN LAW PREVENTS IRS INVESTIGATORS FROM DEVELOPING EVIDENCE THAT THE LOAN IS A SHAM.

Our Response: The Task Force Concept

Treasury has uncovered schemes similar to the example I have described by using the tools the Bank Secrecy Act provides. While foreign bank and corporate secrecy laws hinder the investigation of offshore money laundering, the Act and its implementing regulations still make it possible to pursue leads based upon financial information. In this respect, the Bank Secrecy Act presents a significant hurdle, perhaps the most significant hurdle, that the money launderer must overcome. Another major threat to the money launderer is the Internal Revenue Code. The Internal Revenue Service targets over 25% of its direct investigative time to the prosecution of drug traffickers for tax violations. The IRS, along with Customs Service, also plays a major role in enforcing the Bank Secrecy Act.

However, it is clear from the spectrum of methods used by drug traffickers and their financial agents that any single law enforcement approach - be it tracking the money or tracking the drugs - is not enough. The Task Force concept, which Treasury and this Administration have employed to combat money laundering, has shown substantial promise in part because it combines all of the statutory weapons we have available, including various narcotics statutes, the Bank Secrecy Act, the Internal Revenue Code and RICO. Task Force investigations are commonly coordinated by Federal prosecutors and integrated with the grand jury process.

TASK FORCES ARE EFFECTIVE BECAUSE THEY COMBINE THE PARTICULAR INVESTIGATIVE SKILLS OF DIFFERENT LAW ENFORCEMENT AGENCIES. IRS, CUSTOMS, DEA, ATF AND THE FBI ALL PARTICIPATE IN VARIOUS TASK FORCES NOW INVESTIGATING MONEY LAUNDERING AND ORGANIZED CRIME. AGENCIES WORKING IN COMBINATION PRODUCE BETTER RESULTS BECAUSE THEY CAN MAXIMIZE THE EXCHANGE OF INFORMATION WHICH MIGHT OTHERWISE BE IMPEDED BY AGENCY PAROCHIALISM. A THIRD ADVANTAGE IS THAT FINANCIAL INVESTIGATIVE TECHNIQUES, FOCUSING ON THE FINANCIAL UNDERPINNINGS OF A DRUG ORGANIZATION, ARE FULLY INTEGRATED INTO THE OVERALL INVESTIGATIVE PROCESS.

THE TREASURY DEPARTMENT'S OWN FINANCIAL TASK FORCES, OF WHICH THERE WERE ONLY TWO WHEN THIS ADMINISTRATION BEGAN, NOW NUMBER FORTY. SITUATED THROUGHOUT THE UNITED STATES, THEY DIRECT THE INVESTIGATIVE WORK OF IRS AND CUSTOMS AGENTS AGAINST THE FINANCIAL BASE OF EVERY TYPE OF CRIMINAL ORGANIZATION. ONE OF THE FIRST TASK FORCES, OPERATION GREENBACK IN MIAMI, HAS SERVED AS THE MODEL. IN HIS TESTIMONY TODAY, COMMISSIONER VON RAAB WILL PRESENT SOME STATISTICS TO GIVE YOU AN INDICATION OF THE EFFECT THAT THESE TREASURY TASK FORCES HAVE HAD.

AS YOU KNOW, MR. CHAIRMAN, FINANCIAL INVESTIGATIONS ARE AN ESSENTIAL COMPONENT OF A LARGER, ADMINISTRATION-WIDE INITIATIVE - THE ORGANIZED CRIME DRUG ENFORCEMENT TASK FORCE PROGRAM (OCDE). THIS IS WHOLLY INDEPENDENT OF THE TREASURY FINANCIAL TASK FORCES

TO WHICH I JUST REFERRED. PRESIDENT REAGAN ANNOUNCED HIS INTENTION TO CREATE THESE OCDE TASK FORCES IN OCTOBER, 1982. TWELVE WERE IN PLACE BY EARLY 1983, BUT HAVE BEEN FULLY OPERATIONAL FOR ONLY 18 MONTHS. A THIRTEENTH WAS ADDED THIS YEAR. IN THIS SHORT TIME THE OCDE TASK FORCES HAVE INITIATED APPROXIMATELY 800 INVESTIGATIONS. THEY HAVE INDICTED OVER 4,000 DRUG TRAFFICKERS AND MONEY LAUNDERERS, OF WHOM MORE THAN 1,500 HAVE BEEN CONVICTED. I HASTEN TO POINT OUT THAT THE HIGH DEFENDANTS-TO-CASES RATIO IS THE INTENDED RESULT OF A DELIBERATE TARGETING OF CRIMINAL ORGANIZATIONS RATHER THAN INDIVIDUAL OFFENDERS.

TREASURY HAS PLAYED A MAJOR ROLE IN THE OCDE TASK FORCES FROM THEIR INITIATION. IN FACT, FULLY TWO THIRDS OF THE OCDE INVESTIGATIONS HAVE A MAJOR FINANCIAL COMPONENT. IRS HAS CONTRIBUTED 220 SPECIAL AGENTS TO THESE TASK FORCES AND CUSTOMS HAS CONTRIBUTED 183. TREASURY'S BUREAU OF ALCOHOL, TOBACCO AND FIREARMS HAS CONTRIBUTED 54 SPECIAL AGENTS TO INVESTIGATE THE EXPLOSIVES, FIREARMS AND ARSON VIOLATIONS THAT RESULT FROM DRUG TRAFFICKING AND ORGANIZED CRIME.

ALL OF THE TREASURY TASK FORCES, AS WELL AS ALL OF THE PRESIDENT'S OCDE TASK FORCES, NOW USE THE INFORMATION AND INVESTIGATIVE SUPPORT OF THE TREASURY FINANCIAL LAW ENFORCEMENT CENTER, OR TFLEC, WHICH WE CREATED WITHIN CUSTOMS IN 1982. TFLEC IS BOTH A COMPUTERIZED CLEARINGHOUSE AND AN ANALYTICAL CENTER FOR INFORMATION OBTAINED FROM BANK SECRECY ACT REPORTING. IT PROVIDES INTELLIGENCE, GENERATES LEADS FOR NEW INVESTIGATIONS, AND PROVIDES ANALYTICAL SUPPORT FOR EXISTING ONES. COMMISSIONER VON RAAB WILL DESCRIBE THE FUNCTIONS OF TFLEC IN FURTHER DETAIL.

Money Laundering Cases

Mr. Chairman, in addition to the statistics I have mentioned, the effectiveness of our financial investigations can be demonstrated by the types of cases they have produced.

Treasury's Greenback and El Dorado task forces have, in the last few years, destroyed or targeted eighteen major money-laundering organizations. The following major cases are ranked according to the documented size of the operation involved:

Cases that have already resulted in convictions	Dollars laundered	Time frame
Isaac Kattan	$500,000,000	3 years
Beno Ghitis	268,000,000	5 months
Orozco	145,000,000	13 months
Armenteros, et al.	130,000,000	8 years
Great American Bank	95,000,000	13 months
Zapata, et al.	17,000,000	8 months
SUBTOTAL:	$1,155,000,000	
Pending cases		
A	$300,000,000	3 years
B	300,000,000	8 years
C	250,000,000	20 months
D	230,000,000	3 years
E	180,000,000	2 years
F	140,000,000	8 months

G	70,000,000	8 MONTHS
H	65,000,000	1 YEAR
I	60,000,000	1 YEAR
J	20,000,000	18 MONTHS
K	14,000,000	1 YEAR
L	9,000,000	3 MONTHS
	SUBTOTAL: $1,638,000,000	
	TOTAL: $2,793,000,000	

THE SIZE OF THESE MONEY LAUNDERING ORGANIZATIONS GIVES AN INDICATION OF THE ENORMOUS WEALTH GENERATED BY THE NARCOTICS TRADE. WHILE SOUTH FLORIDA REMAINS THE AREA OF THE HIGHEST CONCENTRATION OF INTERNATIONAL DRUG TRAFFICKING AND MONEY LAUNDERING, THE OCDE TASK FORCES ARE UNCOVERING MAJOR DRUG AND ORGANIZED CRIME CASES IN NEW YORK AND ELSEWHERE. ONLY A FULLY COORDINATED, NATIONWIDE APPROACH CAN BE EXPECTED TO BRING THE PROBLEM UNDER CONTROL.

HERE IN NEW YORK, I AM SURE MANY CITIZENS ARE FAMILIAR WITH THE OROZCO INVESTIGATION, WHICH DESTROYED A MONEY LAUNDERING ORGANIZATION THAT HAD LAUNDERED IN EXCESS OF $151 MILLION AND TRANSPORTED $42 MILLION IN CURRENCY FROM PANAMA TO THE UNITED STATES IN A THIRTEEN-MONTH PERIOD. IT WAS THE LARGEST CASE OF ITS KIND EVER PROSECUTED IN THE NEW YORK AREA. EDUARDO OROZCO AND SIX OF HIS ASSOCIATES WERE CONVICTED OR PLEADED GUILTY. OROZCO HIMSELF WAS SENTENCED TO EIGHT YEARS IMPRISONMENT AND

FINED $1,035,000. THE OROZCO CASE BEGAN WITH FINANCIAL INFORMATION GENERATED UNDER THE BANK SECRECY ACT. IT WAS INVESTIGATED JOINTLY BY CUSTOMS, DEA AND IRS, AND SUPPORTED TO A GREAT EXTENT BY TFLEC ANALYSES.

ANOTHER CASE IN NEW YORK ATTRACTED NATIONAL ATTENTION LAST APRIL WHEN AN OCDE TASK FORCE INVESTIGATION, KNOWN AS THE PIZZA CONNECTION INVESTIGATION, RESULTED IN THE INDICTMENT OF 31 INDIVIDUALS ON FEDERAL CHARGES STEMMING FROM HEROIN IMPORTATION AND DISTRIBUTION. IN FIVE YEARS, THIS ORGANIZATION DISTRIBUTED $1.65 BILLION WORTH OF HEROIN AND LAUNDERED AT LEAST $28 MILLION IN HEROIN PROCEEDS, PRINCIPALLY THROUGH BANKS IN FOREIGN COUNTRIES, IN A 33 MONTH PERIOD. THE CASE IS CURRENTLY SCHEDULED FOR TRIAL IN JUNE.

A SECOND INVESTIGATION BY THE NEW YORK OCDE TASK FORCE CULMINATED LAST JUNE, AFTER A ONE AND ONE-HALF YEAR INVESTIGATION, IN THE INDICTMENT OF THE GLOBAL UNION BANK AND A FORMER BANK OFFICER. THE CHARGES RESULTED FROM ALLEGED REPORTING VIOLATIONS UNDER THE BANK SECRECY ACT IN CONNECTION WITH APPROXIMATELY $1.1 MILLION IN CASH DEPOSITS. ASSISTANT COMMISSIONER WASSENAAR WILL DESCRIBE THIS CASE IN MORE DETAIL IN HIS TESTIMONY TODAY.

MR. CHAIRMAN, CASES SIMILAR TO THESE ARE UNDER INVESTIGATION ALL ACROSS THE UNITED STATES. FOR INSTANCE, LAST JUNE 5TH, A COORDINATED INTERAGENCY INVESTIGATION BY THE PRESIDENT'S SOUTH CAROLINA OCDE TASK FORCE RESULTED IN THE INDICTMENT OF 31

INDIVIDUALS FOR THEIR ALLEGED OPERATION OF A LARGE MARIJUANA IMPORTATION SCHEME. THE SUSPECTS ARE BELIEVED TO HAVE IMPORTED OVER $100 MILLION WORTH OF MARIJUANA AND HASHISH INTO EAST COAST STATES OF THE PAST SIX YEARS.

ON JANUARY 9TH OF THIS YEAR AN OCDE TASK FORCE INVESTIGATION IN VIRGINIA RESULTED IN THE INDICTMENT OF 26 INDIVIDUALS FOR THEIR ALLEGED PARTICIPATION IN A HUGE MARIJUANA IMPORTATION SCHEME. IN ADDITION TO CHARGES UNDER FEDERAL DRUG LAWS, INCLUDING CONTINUOUS CRIMINAL ENTERPRISE, THE INDICTMENT INCLUDES CHARGES FOR CURRENCY VIOLATIONS. THE OPERATION IS BELIEVED TO HAVE REALIZED PROFITS OF $100 MILLION OVER A TEN-YEAR PERIOD AND TO HAVE LAUNDERED PROCEEDS THROUGH RETAIL STORES ACROSS THE NATION THAT DEAL IN ORIENTAL RUGS AND GEMS. THE GOVERNMENT HAS SEIZED A $1.7 MILLION FARM NEAR LEESBURG, VIRGINIA, IN CONNECTION WITH THIS CASE AND IS SEEKING ITS FORFEITURE UNDER THE CONTINUING CRIMINAL ENTERPRISE LAW. THE GOVERNMENT HAS ALSO SOUGHT FORFEITURE OF $13 MILLION IN OTHER ASSETS.

TRENDS IN INTERNATIONAL MONEY LAUNDERING

MONEY LAUNDERERS HAVE REACTED TO THIS ADMINISTRATION'S CRACKDOWN ON DOMESTIC MONEY LAUNDERING BY INCREASING THEIR USE OF OFFSHORE BANKS IN COUNTRIES WITH STRICT BANK SECRECY LAWS. WE HAVE RESPONDED TO THIS TREND BY SEEKING AGREEMENTS FROM THESE OFFSHORE HAVENS TO PROVIDE THE UNITED STATES DISCLOSURE OF FINANCIAL AND BANKING INFORMATION FOR LAW ENFORCEMENT PURPOSES. LAST JULY 26TH, AS A RESULT OF THE EFFORTS OF THE DEPARTMENTS OF JUSTICE

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AND TREASURY, THE UNITED STATES CONCLUDED AN AGREEMENT WITH THE UNITED KINGDOM ALLOWING U.S. PROSECUTORS TO SECURE DOCUMENTS LOCATED IN THE CAYMAN ISLANDS. WHEN IMPLEMENTING LEGISLATION BY THE CAYMAN ISLANDS COMES INTO EFFECT, U.S. LAW ENFORCEMENT WILL HAVE A MECHANISM TO OBTAIN DOCUMENTS RELEVANT TO CRIMINAL OR CIVIL PROCEEDINGS ARISING FROM NARCOTICS ACTIVITY. IN ADDITION, WE ARE CURRENTLY NEGOTIATING WITH LAW ENFORCEMENT OFFICIALS OF THE REPUBLIC OF PANAMA TO SECURE AN AGREEMENT FOR THE EXCHANGE OF FINANCIAL INFORMATION CONNECTED WITH MONEY LAUNDERING. WE WILL CONTINUE TO PUSH FOR PROGRESS ON THIS FRONT.

REGULATORY AMENDMENTS TO COMBAT MONEY LAUNDERING

TO RESPOND FURTHER TO THE TREND IN OFFSHORE MONEY LAUNDERING, TREASURY HAS PROPOSED REGULATIONS UNDER WHICH THE SECRETARY CAN REQUIRE SPECIFIED U.S. FINANCIAL INSTITUTIONS TO REPORT TO TREASURY THEIR TRANSACTIONS WITH FOREIGN FINANCIAL INSTITUTIONS.

IN EXERCISING THIS NEW AUTHORITY, TREASURY WOULD DETERMINE WHICH FOREIGN FINANCIAL INSTITUTIONS TO MAKE SUBJECT TO REPORTING ON THE BASIS OF AVAILABLE INFORMATION INDICATING UNUSUAL TRANSACTIONS. WE WOULD REQUIRE REPORTING ON A SELECTIVE BASIS, MINDFUL OF THE NEED TO AVOID UNNECESSARY INTERFERENCE WITH LEGITIMATE COMMERCIAL TRANSACTIONS. OVERALL, WE BELIEVE IT WILL ALLOW US TO FOCUS OUR ANALYTICAL RESOURCES IN A WAY THAT IS MORE LIKELY TO UNCOVER POTENTIAL ILLICIT ACTIVITY FOR SPECIFIC INVESTIGATIVE TARGETING.

Another problem we have recently confronted is the use of casinos to launder illicit cash. Treasury has become aware that drug traffickers and money launderers are using casinos to exchange and transfer proceeds of illegal activity. Last year, in response to this concern, we published proposed regulations to include casinos in the class of financial institutions subject to reporting and recordkeeping requirements under the Bank Secrecy Act. Because casinos are also closely regulated by state agencies, we included a provision under which Treasury will consider plans submitted by states that would provide for a system of reporting and recordkeeping within a state regulatory scheme that meets the objectives of Treasury's proposed rule. If Treasury considers a state plan fully acceptable, it will exempt the casinos in that state from the Federal reporting and record-keeping requirements under Title 31.

We believe these proposed regulatory changes will facilitate our investigative work and, at the same time, create a stronger deterrent to the financial crimes associated with drug trafficking.

Possible Improvements to Our Government's Ability to Combat Money Laundering

The international efforts and regulatory changes that I have mentioned will, I believe, increase Treasury's effectiveness in combating money laundering. But as you know, Mr. Chairman, the

CHALLENGE MONEY LAUNDERING POSES FOR LAW ENFORCEMENT IS BOTH ENORMOUS AND CONTINUING. WE MUST BE VIGILANT IN SEEKING NEW METHODS OF MEETING THIS CHALLENGE.

LAST OCTOBER, THE PRESIDENT'S COMMISSION ON ORGANIZED CRIME ISSUED AN INTERIM REPORT ON THE MONEY LAUNDERING THREAT. IT CONTAINED A NUMBER OF RECOMMENDATIONS FOR ENHANCING THE EFFECTIVENESS OF THE BANK SECRECY ACT. WE HAVE STUDIED CAREFULLY THE RECOMMENDATIONS DEALING WITH ADMINISTRATIVE AND REGULATORY MATTERS, AND WE HAVE STARTED A PROGRAM TO IMPLEMENT THEM WHERE PRACTICABLE. AS YOU ARE AWARE, OTHER RECOMMENDATIONS OFFERED BY THE COMMISSION CALL FOR NEW LEGISLATION. SOME OF THESE LEGISLATIVE RECOMMENDATIONS WERE ACHIEVED WITH THE PASSAGE OF THE COMPREHENSIVE CRIME CONTROL ACT OF 1984 WHICH YOU SUPPORTED. STILL OTHERS WILL AWAIT ADMINISTRATION AND CONGRESSIONAL CONSIDERATION. ONE SUCH RECOMMENDATION WOULD INVOLVE CHANGES TO THE RIGHT TO FINANCIAL PRIVACY ACT. THE COMMISSION CONCLUDED THAT CHANGES ARE NEEDED TO ALLOW BANK EMPLOYEES GREATER LATITUDE IN INFORMING LAW ENFORCEMENT AGENCIES OF SUSPICIOUS FINANCIAL TRANSACTIONS. ANOTHER RECOMMENDATION WOULD ESTABLISH MONEY LAUNDERING AS A SEPARATE OFFENSE UNDER FEDERAL CRIMINAL LAW.

IN CONCLUSION, I WANT TO EXPRESS MY GRATITUDE TO YOU, MR. CHAIRMAN, FOR YOUR SUPPORT OF THE AMENDMENTS TO THE CURRENCY AND FOREIGN TRANSACTIONS REPORTING ACT WHICH WERE INCLUDED IN THE PRESIDENT'S COMPREHENSIVE CRIME CONTROL ACT. THE CURRENCY AMENDMENTS PROVIDE LONG-NEEDED MEASURES FOR OUR BATTLE AGAINST MONEY

LAUNDERING. I WOULD ALSO LIKE TO TAKE THIS OPPORTUNITY TO GIVE RECOGNITION, ONCE AGAIN, TO YOUR SUCCESSFUL EFFORTS TO OBTAIN 100 ADDITIONAL CUSTOMS INSPECTORS AND INVESTIGATORS FOR THE NEW YORK REGION. THIS ENHANCED MANPOWER IS PARTICULARLY VALUABLE IN ENABLING CUSTOMS TO BE MORE EFFECTIVE IN FIGHTING THE SMUGGLING OF HEROIN, THE DRUG THAT OVER THE YEARS HAS HAD SUCH DEVASTATING CONSEQUENCES FOR THE PEOPLE OF NEW YORK. I KNOW I SPEAK FOR THE ENTIRE LAW ENFORCEMENT COMMUNITY IN EXPRESSING APPRECIATION AND THANKS FOR YOUR SUPPORT IN THE STRUGGLE AGAINST CRIME AND DRUG ABUSE IN OUR SOCIETY.

THIS CONCLUDES MY PREPARED REMARKS. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS THAT THE COMMITTEE MAY HAVE.

Senator D'AMATO. Thank you.
Commissioner.

WILLIAM VON RAAB, COMMISSIONER, U.S. CUSTOMS SERVICE

Mr. VON RAAB. I will reduce my testimony and give it to the reporter, and he can insert it as though it has been read in its entirety.

None of the problems that have been talked about by Secretary Walker have really caused any real concern for the criminal until the crackdown except perhaps keeping their money safe from other criminals.

With the implementation of this act, and the putting of a lot of manpower behind it, and the tightening up of some of the technical aspects, Customs and the IRS have a very effective tool to attack the flow of money used for the goods.

As we well know, the drawing trade on the streets of cities such as New York is a cash-and-carry business. Drug dealers take cash and not credit cards for their deals, $5, $10, $20, and $100.

Now, $1 million of street money weighs about 100 pounds. So, $1 million sounds like a lot of money and it is a lot of money, but it also weighs 100 pounds.

We have to figure out how to go after them and we have come up with the technique to get the criminals in their money laundering.

I would like to thank the committee for inviting me to discuss the U.S. Customs Service role concerning its efforts to stem the illicit flow of funds gained from illegal activities or, in more common terms, to stop money laundering.

As the committee is aware, money laundering is a myriad of schemes by which the criminal element conceals and discusses illicit profits gained from criminal activity. The laundering of money causes severe damage to the national economy, to society, and, individually, to the people of the United States.

NARCOTICS GENERATES $70 BILLION ANNUALLY

Enforcement community estimates indicate that narcotics trafficking generates approximately $70 billion annually.

Consequently, it is our assertion that at least this amount is laundered annually which affects each of us as follows:

Huge amounts of income tax revenues go uncollected.

Laundering activities create an unhealthy and false flow of money through financial institutions, and,

Probably most importantly, the laundered money is used to further capitalize and expand criminal activity, particularly in the international trafficking of narcotics.

Until the early 1970's, Customs and the other Federal law enforcement agencies concentrated their efforts on intercepting illegally entered goods before they reached the buyer and apprehending those who were responsible.

Major movements of cash did not require reporting; and because of this, very little attention could be afforded to the flow of money for payment of illegal goods.

The illicit money flow—especially narcotics money—moved with virtual impunity. Because of the nature of the beast, narcotics trafficking is a cash business.

Street purchases are made with small denomination bills; and as the proceeds move up the ladder from retailer, to wholesaler, to supplier, enormous amounts of these small bills accumulate. The supplier is then faced with several problems in making payment to the overseas shipper and shielding his own assets.

These payments include: The sheer physical volume of money, that is, $1 million in $10 bills would make a stack 8 feet high; the need for security to keep the money from being stolen by other criminals; concealing the presence of the money from law enforcement authorities; and the logistical problem in transporting the funds to the overseas supplier.

Until the implementation of the Bank Secrecy Act, none of the above-cited problems caused any real concern for the criminal except perhaps keeping the money secure from competitive criminals.

With the implementation of the Bank Secrecy Act, Customs and the Internal Revenue Service have an effective tool to attack the flow of money used for payment of the illicit goods.

The movement of $10,000 or more in or out of the country must be reported. If smuggled, the criminal risks its seizure and additional criminal charges.

Additionally, no longer can small denomination bills be exchanged for larger bills or for monetary instruments such as checks or drafts without the transactions being reported to the Government by the banking industry.

Obviously, the criminal element has devised schemes to subvert or evade the Bank Secrecy Act. However, these schemes complicated the criminal's life and subject him, if caught, to additional penalties both civil and criminal in nature.

I would like at this time to summarize some laundering schemes and, later on, discuss some specific cases, where Customs and our counterpart investigative agencies were able to disrupt money laundering operations.

Traditionally, U.S. law enforcement has viewed laundering as the cleansing of illicit funds, by having the cash surface as legitimately produced profits from a clean business which would normally generate cash receipts—such as restaurants or other retail businesses.

RETURN OF OFFSHORE FUNDS

We have also noted the unreported—smuggled—transportation of cash and/or bearer instruments to an offshore location. Once offshore, the funds may be returned through a loan scheme utilizing shell companies or a shell bank.

Assistant Secretary Walker has outlined a hypothetical example of how such a scheme may operate. This allows the returning funds to be used legally and adds, as emphasized by the Assistant Secretary, the additional benefits of being able to show false interest paid on the alleged loan which is turned into a tax-deductible advantage.

Another method is the sale of a business to a shell company owned by the criminal organization. Again, previously transported, and usually unreported, cash is used as payment.

A current traditional method involved the transfer of funds utilizing fraudulent commercial invoices and resulting international letters of credit.

However, we have found that because of the enormous volume of cash that a narcotics trafficker must handle routlinely and, the worry attached to physical security and the speed with which these funds must be moved, the foreign narcotics trafficker must resort to less conventional laundering methods.

Additionally, foreign nationals have no interest in paying income tax in the United States and, therefore, have no desire to legitimize their profits.

Conversely, we have found that U.S. nationals living in the United States tend to invest and purchase in the United States and, therefore, must resort to traditional laundering methods in order to utilize their illegally gained profits.

A large amount of currency requiring laundering is occasionally treated as commodity and traded, as such, for a more easily managed or disguised negotiable instrument, for example: Personal check, cashier's check, secured loans, larger denomination bills, or another country's currency.

However, all of these conversions require a domestic financial institution to report the transaction on IRS Form 4789.

The alternative to this is the physical and unreported transportation of large amounts of currency into and out of the United States in violation of U.S. Customs law.

The Colombian traffickers have entrusted their narcotics profits to quasi-legal—black market—Colombian exchange houses which operate both in the United States and Colombia.

Most of the exchange houses are managed by intrafamilial—blood relatives—organizations which assist the narcotics trafficker by successfully laundering his profits in a number of ways while charging a fee or commission for the services rendered. These fees can range from 0.5 to 6 percent or higher depending on the amounts of currency, the availability of exchange funds, and the type of complex or innovative scheme used to launder the cash.

Additionally, the tight familial relationships make it extremely difficult for law enforcement agencies to penetrate them by informant or undercover operations, thereby providing a good measure of security and secrecy for a narcotics client.

The exchangers conduct a number of activities at one time. They may buy U.S. dollars in exchange for Colombian pesos; buy pesos in exchange for dollars; buy and sell both Colombian banking instruments as well as U.S. cashier's checks, personal checks, or corporate checks; arrange for the transportation or delivery of currency into or out of the United States, manipulate U.S. domestic narcotics profits from one U.S. bank account to another; arrange for disguised wire transfers of funds from the United States to secure havens such as Panama and Switzerland; set up shell foreign corporations to conceal the source and origin of the funds; and arrange for the false or nonfiling of reports required by the Bank Se-

crecy Act. More importantly, all of these transactions are frequently happening at the same time.

Customs has endeavored to meet the challenge of these and other innovative money-laundering schemes in several ways.

One way is our participation in a host of multiagency task forces. Task forces, as you know, combine the expertise of Federal investigators representing a wide spectrum of the law enforcement community and provide a multifaceted and disciplined attack on violators.

Customs has also created and continues to create, its own multidisciplined, internal specialized enforcement operations focusing on particular aspects of money laundering.

At the center of our efforts to target and terminate money laundering organizations is the Treasury Financial Law Enforcement Center [TFLEC] which is located at Customs headquarters and staffed with Customs and IRS personnel.

ACTIVITIES OF TFLEC

I believe TFLEC is already familiar to you. I will briefly summarize its activities and capabilities at this time.

TFLEC is both a clearinghouse and an analytical center for all Bank Secrecy Act data [BSA], collateral intelligence, and ongoing investigative support. The BSA forms, as you are aware, are the Customs Form 4790, Report of International Transportation of Currency or Monetary Instruments [CMIR]; the IRS Form 4789, Currency Transaction Report [CTR]; and the TD 90.22–1, Foreign Bank Account [FBA] form issued by Treasury.

The CMIR must be filed whenever there is transportation of currency or monetary instruments valued in excess of $10,000 into or out of the country.

The CTR must be filed by a financial institution receiving or disbursing currency in amounts of $10,000 or more.

The FBA must be filed by U.S. citizens or resident aliens if they maintain a foreign bank account/accounts equaling more than $5,000 in aggregate form during a calendar year.

The data from these reports is compiled at TFLEC and can be accessed by law enforcement agencies for use in criminal investigations and proceedings.

Of course, we are concerned with financial privacy issues, and the data can only be released after strict dissemination requirements are met.

TFLEC also generates a myriad of analytical reports using BSA data which are available to Federal law enforcement agencies under the same dissemination requirements.

Using raw data and the resultant analyses, TFLEC has been bane to identify the money flow of large-scale narcotic traffickers that has resulted in enforcement action including arrests and seizures of large amounts of cash.

TFLEC does not restrict its analytical efforts on narcotics trafficking only, but rather for all areas of law enforcement, including illegal critical technology export, terrorism, fraud, et cetera.

The Internal Revenue Service, the Securities and Exchange Commission, the Federal Bureau of Investigation, the Drug Enforce-

ment Administration, and numerous other Federal agencies avail themselves of TFLEC's services in pursuing investigations of violations within their scope of enforcement responsibility.

I would now like to cite some results of our efforts in financial law enforcement including the detection and investigation of money laundering schemes. These figures are drawn from data provided by task forces in which Customs is the initiator of investigation or a participant.

The task forces include the 13 regional organized crime drug enforcement task forces and Operation El Dorado.

The figures for fiscal year 1984 are: Arrests, 658; indictments, 779; convictions, 261; currency seized; $33.2 million; and property seized, $29.6 million. Narcotics seizures: Cocaine, 236.2 kilos; heroin, 21.8 kilos; marijuana, 54,458 pounds; and other, 6.5 kilos.

Senator D'AMATO. I think the figures speak very graphically and while we say we want to get at the heart of the criminal enterprise, the drug enterprise and go to where the money is, this shows you that you also pick up some drugs in addition. Start making real convictions by getting the guy at the top and seizing his assets and sentence him under the new provisions, give him life in prison, and we will begin getting cooperation as in the *Nickey Barnes* case. That's how you begin to break that empire.

Mr. VON RAAB. The information that we develop which is collateral to the investigation is important, and that's why we have the DEA and the other agencies working back and forth.

The drug trafficker, as any other entrepreneur, must maintain a continuous cash flow in order to continue operations. When the cash flow is disrupted or terminated, the business, be it legitimate or illicit, will falter or fail.

I would now like to discuss several interesting investigations that have recently terminated or are still underway.

Due to ongoing prosecution and litigation action, I cannot identify any specific geographic area or other references which could identify the investigations.

EXAMPLES OF TFLEC MONITORING

Example 1: A joint U.S. Customs and IRS investigation was initiated in early 1983, predicated by a TFLEC analytical report indicating unusual CTR activity concerning a boutique. Analysis has disclosed the boutique was making large cash deposits in several banks in two U.S. cities.

Investigation revealed that the monetary activity was steadily increasing from approximately $50,000 in 1979 to over $10 million 4 years later.

TFLEC began to monitor the business activity which resulted in identifying new banks, accounts, and account owners. Deposit activity in December 1983, caused agents to initiate a surveillance which culminated in the execution of a search warrant and the seizure of more than $150,000.

Chemical analysis of the currency by the Miami DEA laboratory revealed traces of cocaine on the money. This investigation continues and it is expected that several indictments charging BSA and drug law violations will be issued shortly.

Example 2: In January 1984, two individuals who were exchanging U.S. currency for cashier's checks in denominations of less than $10,000 for each check were identified.

This discovery resulted in a 2-month U.S. Customs and IRS investigation which uncovered a major check-purchasing scheme used to convert U.S. currency into cashier's checks at various U.S. banks.

Utilizing the scheme, individuals would go to several banks in a single day and purchase cashier's checks for amounts under the $10,000 reporting requirement.

In late March 1984, the source of the currency was identified as a subject of several other Customs/IRS financial investigations.

In April 1984, Customs and Internal Revenue special agents executed a search warrrant on the subject's condominium. An associate of the subject was arrested leaving the condominium. His car was searched the next day pursuant to a search warrant and yielded $100,000 in U.S. currency. The car was seized.

The search of the condominium resulted in the seizure of books and records; various paraphernalia including a counterfeit detector and paper shredder; $218,800 in U.S. currency; and $523,110.11 in cashier's checks and money orders.

The main subject was arrested and his condominium and vehicle were seized.

Another associate was arrested at his residence and his camper was seized.

Subsequently, agents served subpoenas on a bank requesting the contents of two accounts, $194,000, which was subsequently seized. The totals of the seizures amounted to $1,073,817 in U.S. currency/cashier's checks and 3 vehicles valued at $25,890.

Later in April, a Federal grand jury returned an indictment against the three charging them with one count of conspiracy and four counts of each—false statements and aiding and abetting—all in violation of the BSA.

On June 12, 1984, the three defendants pled guilty and agreed to the forfeiture of four vehicles and $984,455.

On July 12, 1984, they were sentenced to terms ranging from 3 years' probation to 4 years' imprisonment.

Example 3: Another example U.S. Customs efforts resulted when TFLEC assistance was required by the Jamaican Government.

Information showed that prior to October 1983, two individuals filed over 200 CMIR's at a large international airport totaling approximately $15 million. The CMIR's showed that the currency originated in Jamaica and that the money belonged to two Jamaica individuals.

In March 1984, one of the individuals was convicted of 28 violations of the Jamaican currency control laws and 3 violations of Jamaican customs laws for aiding the violation of currency control laws.

A U.S. customs agent testified for the Jamaica Government in the case. The subject was sentenced to 1 year imprisonment on each count and fined $23 million—$7 million in U.S. currency.

In June 1984, the other individual was convicted of 36 violations of the Jamaican currency control laws regarding the transportation of $5 million out of Jamaica into the United States.

Example 4: A classic example of money laundering concerns the investigation of a closely knit interfamilial organization based in Colombia which was involved in major currency exchange/money laundering operations on an international scale; 18 family members were identified as principals.

The principals created four Panamanian paper corporations and one U.S. domestic corporation through which the illegl activities of the organization were conducted and concealed within the United States.

The principals purported that all U.S. currency delivered to U.S. banks was from their foreign exchange activities in Colombia and that the international transportation of currency was reported to U.S. Customs as required by law.

However, of the $77 million in U.S. currency delivered to one bank by the organization, only $10 million was reported to U.S. Customs as being transported or received by the organization from Colombia.

The organization was a shell corporation supervised by a Colombian in the United States and two brothers-in-law in Colombia. The domestic receipt and disbursal of U.S. currency was controlled through an auto leasing firm.

Four other shell corporations were formed to further conceal domestic currency exchange activities. Deposits of U.S. currency in excess of $165 million were traced to the organization's accounts in the United States.

The organization also operated a black market currency exchange in Barranquilla and San Andres, Colombia, as well as the United States.

The organization acquired U.S. cash in Colombia by selling Colombian pesos, or checks for pesos, to individuals who had U.S. dollars that they wanted to convert to Colombian currency.

The organization performed currency exchanges at a rate more beneficial to a client than the Colombian banks would provide.

The flat exchange rate that the organization utilized was flexible, according to market conditions, but always included a built-in profitable service charge.

The organization failed to report domestic U.S. transactions with various clients as well as transportations across the U.S. border in an attempt to defraud the U.S. Government.

The failure to report domestic transactions and the failure to report international transportations were inseparable acts of a continuing pattern of illegal activity.

The U.S. Customs and IRS investigation in the *Viomar* case has resulted in 10 indictments and the application of a $23 million civil penalty which effectively dismembered the organization.

Two individuals and one corporation pled guilty; all others are fugitives; locations unknown, but probably in Colombia.

The majority of money laundering schemes reminds me of a juggling act. In this final instance we found that an individual and his organization facilitated the laundering of over $360 million in 18 months; the individual would float checks ahead of the receipt of cash to be laundered.

When we reached in and seized $10 million, it upset the juggling act and the rest of the floating account collapsed in a heap—another $10 million in floated checks bounced.

MONEY LAUNDERING—BIG BUSINESS

In summation, money laundering has become an international big business in its own right. The U.S. Customs service is proud to be part of the multiagency, multidisciplined, and even, multinational cooperative enforcement efforts which are a most effective means to fight this insidious activity.

However, we could not have begun this fight without the legislative support of the Congress and the continued interest as represented by hearings such as this.

The Customs Service supports the concept of creating legislation which will allow for administrative subpoenas and will define money laundering as a crime.

We look forward to a continued active role in money laundering enforcement.

Thank you for your interest, your support, and the opportunity to present this testimony.

[Complete statement of William von Raab follows:]

Department of the TREASURY NEWS
U.S. CUSTOMS SERVICE WASH. D.C.

HOLD FOR RELEASE UNTIL 12 NOON
JANUARY 28, 1985

TESTIMONY OF
WILLIAM von RAAB
COMMISSIONER OF CUSTOMS
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
MONDAY, JANUARY 28, 1985

GOOD MORNING. I WOULD LIKE TO THANK THE COMMITTEE FOR INVITING ME TO DISCUSS THE U.S. CUSTOMS SERVICE ROLE CONCERNING ITS EFFORTS TO STEM THE ILLICIT FLOW OF FUNDS GAINED FROM ILLEGAL ACTIVITIES OR, IN MORE COMMON TERMS, TO STOP "MONEY LAUNDERING." AS THE COMMITTEE IS AWARE, MONEY LAUNDERING IS A MYRIAD OF SCHEMES BY WHICH THE CRIMINAL ELEMENT CONCEALS AND DISCUSSES ILLICIT PROFITS GAINED FROM CRIMINAL ACTIVITY. THE LAUNDERING OF MONEY CAUSES SEVERE DAMAGE TO THE NATIONAL ECONOMY, TO SOCIETY AND, INDIVIDUALLY, TO THE PEOPLE OF THE UNITED STATES. ENFORCEMENT COMMUNITY ESTIMATES INDICATE THAT NARCOTICS TRAFFICKING GENERATES APPROXIMATELY 70 BILLION DOLLARS (U.S.) ANNUALLY.

CONSEQUENTLY, IT IS OUR ASSERTION THAT AT LEAST THIS AMOUNT IS LAUNDERED ANNUALLY WHICH AFFECTS EACH OF US AS FOLLOWS:

- HUGE AMOUNTS OF INCOME TAX REVENUES GO UNCOLLECTED.

- LAUNDERING ACTIVITIES CREATE AN UNHEALTHY AND FALSE FLOW OF MONEY THROUGH FINANCIAL INSTITUTIONS AND,

- PROBABLY MOST IMPORTANTLY, THE LAUNDERED MONEY IS USED TO FURTHER CAPITALIZE AND EXPAND CRIMINAL ACTIVITY, PARTICULARLY IN THE INTERNATIONAL TRAFFICKING OF NARCOTICS.

UNTIL THE EARLY 1970'S, CUSTOMS AND THE OTHER FEDERAL LAW ENFORCEMENT AGENCIES CONCENTRATED THEIR EFFORTS ON INTERCEPTING ILLEGALLY-ENTERED GOODS BEFORE THEY REACHED THE BUYER AND APPREHENDING THOSE WHO WERE RESPONSIBLE. MAJOR MOVEMENTS OF CASH DID NOT REQUIRE REPORTING; AND BECAUSE OF THIS, VERY LITTLE ATTENTION COULD BE AFFORDED TO THE FLOW OF MONEY FOR PAYMENT OF ILLEGAL GOODS. THE ILLICIT MONEY FLOW, (ESPECIALLY NARCOTICS MONEY) MOVED WITH VIRTUAL IMPUNITY. BECAUSE OF THE "NATURE OF THE BEAST," NARCOTICS TRAFFICKING IS A CASH BUSINESS. STREET PURCHASES ARE MADE WITH SMALL DENOMINATION BILLS; AND AS THE PROCEEDS MOVE UP THE LADDER FROM RETAILER TO WHOLESALER TO SUPPLIER, ENORMOUS AMOUNTS OF THESE SMALL BILLS ACCUMULATE. THE SUPPLIER IS THEN FACED WITH SEVERAL PROBLEMS IN MAKING PAYMENT TO THE OVERSEAS SHIPPER AND SHIELDING HIS OWN ASSETS. THESE PROBLEMS INCLUDE: THE SHEER PHYSICAL VOLUME OF MONEY, I.E., $1 MILLION IN $10 BILLS WOULD MAKE A STACK EIGHT FEET HIGH; THE NEED FOR SECURITY TO KEEP THE MONEY FROM BEING STOLEN BY OTHER CRIMINALS; CONCEALING THE PRESENCE OF THE MONEY FROM LAW ENFORCEMENT AUTHORITIES; AND THE LOGISTICAL PROBLEM IN TRANSPORTING THE FUNDS TO THE OVERSEAS SUPPLIER.

UNTIL THE IMPLEMENTATION OF THE BANK SECRECY ACT, NONE OF THE ABOVE CITED PROBLEMS CAUSED ANY REAL CONCERN FOR THE CRIMINAL EXCEPT PERHAPS KEEPING THE MONEY SECURE FROM COMPETITIVE CRIMINALS.

WITH THE IMPLEMENTATION OF THE BANK SECRECY ACT, CUSTOMS AND THE INTERNAL REVENUE SERVICE HAVE AN EFFECTIVE TOOL TO ATTACK THE FLOW OF MONEY USED FOR PAYMENT OF THE ILLICIT GOODS. THE MOVEMENT OF $10,000 OR MORE IN OR OUT OF THE COUNTRY MUST BE REPORTED. IF SMUGGLED, THE CRIMINAL RISKS ITS SEIZURE AND ADDITIONAL CRIMINAL CHARGES. ADDITIONALLY, NO LONGER CAN SMALL DENOMINATION BILLS BE EXCHANGED FOR LARGER BILLS OR FOR MONETARY INSTRUMENTS SUCH AS CHECKS OR DRAFTS WITHOUT THE TRANSACTIONS BEING REPORTED TO THE GOVERNMENT BY THE BANKING INDUSTRY.

OBVIOUSLY, THE CRIMINAL ELEMENT HAS DEVISED SCHEMES TO SUBVERT OR EVADE THE BANK SECRECY ACT. HOWEVER, THESE SCHEMES COMPLICATE THE CRIMINAL'S LIFE AND SUBJECT HIM, IF CAUGHT, TO ADDITIONAL PENALTIES BOTH CIVIL AND CRIMINAL IN NATURE.

I WOULD LIKE AT THIS TIME TO SUMMARIZE SOME "LAUNDERING" SCHEMES AND, LATER ON, DISCUSS SOME SPECIFIC CASES WHERE CUSTOMS AND OUR COUNTERPART INVESTIGATIVE AGENCIES WERE ABLE TO DISRUPT MONEY LAUNDERING OPERATIONS.

TRADITIONALLY, U.S. LAW ENFORCEMENT HAS VIEWED LAUNDERING AS THE "CLEANSING" OF ILLICIT FUNDS, BY HAVING THE CASH SURFACE AS LEGITIMATELY PRODUCED PROFITS FROM A "CLEAN

BUSINESS WHICH WOULD NORMALLY GENERATE CASH RECEIPTS---SUCH AS A RESTAURANT OR OTHER RETAIL BUSINESS.

WE HAVE ALSO NOTED THE UNREPORTED (SMUGGLED) TRANSPORTATION OF CASH AND/OR BEARER INSTRUMENTS TO AN OFFSHORE LOCATION. ONCE OFFSHORE, THE FUNDS MAY BE RETURNED THROUGH A "LOAN" SCHEME UTILIZING SHELL COMPANIES OR A SHELL BANK. ASSISTANT SECRETARY WALKER HAS OUTLINED A HYPOTHETICAL EXAMPLE OF HOW SUCH A SCHEME MAY OPERATE. THIS ALLOWS THE RETURNING FUNDS TO BE USED LEGALLY AND ADDS, AS EMPHASIZED BY THE ASSISTANT SECRETARY, THE ADDITIONAL BENEFITS OF BEING ABLE TO SHOW FALSE INTEREST PAID ON THE ALLEGED LOAN WHICH IS TURNED INTO A TAX DEDUCTIBLE ADVANTAGE.

ANOTHER METHOD IS THE SALE OF A BUSINESS TO A SHELL COMPANY OWNED BY THE CRIMINAL ORGANIZATION. AGAIN, PREVIOUSLY TRANSPORTED, AND USUALLY UNREPORTED, CASH IS USED AS PAYMENT.

A CURRENT TRADITIONAL METHOD INVOLVED THE TRANSFER OF FUNDS UTILIZING FRAUDULENT COMMERCIAL INVOICES AND RESULTING INTERNATIONAL LETTERS OF CREDIT.

HOWEVER, WE HAVE FOUND THAT BECAUSE OF THE ENORMOUS VOLUME OF CASH THAT A NARCOTICS TRAFFICKER MUST HANDLE ROUTINELY AND, THE WORRY ATTACHED TO PHYSICAL SECURITY AND THE SPEED WITH WHICH THESE FUNDS MUST BE MOVED, THE FOREIGN NARCOTICS TRAFFICKER MUST RESORT TO LESS CONVENTIONAL LAUNDERING METHODS. ADDITIONALLY, FOREIGN NATIONALS HAVE NO INTEREST IN PAYING INCOME TAX IN THE UNITED STATES AND, THEREFORE, HAVE NO DESIRE TO LEGITIMIZE THEIR PROFITS.

CONVERSELY, WE HAVE FOUND THAT U.S. NATIONALS LIVING IN THE UNITED STATES TEND TO INVEST AND PURCHASE IN THE UNITED STATES AND, THEREFORE, MUST RESORT TO TRADITIONAL LAUNDERING METHODS IN ORDER TO UTILIZE THEIR ILLEGALLY GAINED PROFITS.

A LARGE AMOUNT OF CURRENCY REQUIRING LAUNDERING IS OCCASIONALLY TREATED AS COMMODITY AND TRADED, AS SUCH, FOR A MORE EASILY MANAGED OR DISGUISED NEGOTIABLE INSTRUMENT, FOR EXAMPLE: PERSONAL CHECK, CASHIER'S CHECK, SECURED LOANS, LARGER DENOMINATION BILLS OR ANOTHER COUNTRY'S CURRENCY. HOWEVER, ALL OF THESE CONVERSIONS REQUIRE A DOMESTIC FINANCIAL INSTITUTION TO REPORT THE TRANSACTION ON IRS FORM 4789. THE ALTERNATIVE TO THIS IS THE PHYSICAL AND UNREPORTED TRANSPORTATION OF LARGE AMOUNTS OF CURRENCY INTO AND OUT OF THE UNITED STATES IN VIOLAITON OF U.S. CUSTOMS LAW.

THE COLOMBIAN TRAFFICKERS HAVE ENTRUSTED THEIR NARCOTICS PROFITS TO QUASI-LEGAL (BLACK MARKET) COLOMBIAN "EXCHANGE HOUSES" WHICH OPERATE BOTH IN THE UNITED STATES AND COLOMBIA. MOST OF THE EXCHANGE HOUSES ARE MANAGED BY INTRA-FAMILIAL (BLOOD RELATIVES) ORGANIZATIONS WHICH ASSIST THE NARCOTICS TRAFFICKER BY SUCCESSFULLY LAUNDERING HIS PROFITS IN A NUMBER OF WAYS WHILE CHARGING A FEE OR COMMISSION FOR THE SERVICES RENDERED. THESE FEES CAN RANGE FROM .5 TO 6 PERCENT OR HIGHER DEPENDING ON THE AMOUNT OF CURRENCY, THE AVAILABILITY OF EXCHANGE FUNDS, AND THE TYPE OF COMPLEX OR INNOVATIVE SCHEME USED TO LAUNDER THE CASH. ADDITIONALLY, THE TIGHT FAMILIAL RELATIONSHIPS MAKE IT EXTREMELY DIFFICULT FOR LAW ENFORCEMENT

AGENCIES TO PENETRATE THEM BY INFORMANT OR UNDERCOVER OPERATIONS, THEREBY PROVIDING A GOOD MEASURE OF SECURITY AND SECRECY FOR A NARCOTICS CLIENT.

THE "EXCHANGERS" CONDUCT A NUMBER OF ACTIVITIES AT ONE TIME. THEY MAY BUY U.S. DOLLARS IN EXCHANGE FOR COLOMBIAN PESOS; BUY PESOS IN EXCHANGE FOR DOLLARS; BUY AND SELL BOTH COLOMBIAN BANKING INSTRUMENTS AS WELL AS U.S. CASHIER'S CHECKS, PERSONAL CHECKS OR CORPORATE CHECKS; ARRANGE FOR THE TRANSPORTATION OR DELIVERY OF CURRENCY INTO OR OUT OF THE U.S., MANIPULATE U.S. DOMESTIC NARCOTICS PROFITS FROM ONE U.S. BANK ACCOUNT TO ANOTHER; ARRANGE FOR DISGUISED WIRE TRANSFERS OF FUNDS FROM THE U.S. TO SECURE HAVENS SUCH AS PANAMA AND SWITZERLAND; SET UP SHELL FOREIGN CORPORATIONS TO CONCEAL THE SOURCE AND ORIGIN OF THE FUNDS; AND ARRANGE FOR THE FALSE OR NONFILING OF REPORTS REQUIRED BY THE BANK SECRECY ACT. MORE IMPORTANTLY ALL OF THESE TRANSACTIONS ARE FREQUENTLY HAPPENING AT THE SAME TIME.

CUSTOMS HAS ENDEAVORED TO MEET THE CHALLENGE OF THESE AND OTHER INNOVATIVE MONEY-LAUNDERING SCHEMES IN SEVERAL WAYS. ONE WAY IS OUR PARTICIPATION IN A HOST OF MULTI-AGENCY TASK FORCES. TASK FORCES, AS YOU KNOW, COMBINE THE EXPERTISE OF FEDERAL INVESTIGATORS REPRESENTING A WIDE SPECTRUM OF THE LAW ENFORCEMENT COMMUNITY AND PROVIDE A MULTI-FACETED AND DISCIPLINED ATTACK ON VIOLATORS. CUSTOMS HAS ALSO CREATED AND

CONTINUES TO CREATE, ITS OWN MULTI-DISCIPLINED, INTERNAL SPECIALIZED ENFORCEMENT OPERATIONS FOCUSING ON PARTICULAR ASPECTS OF MONEY LAUNDERING.

AT THE CENTER OF OUR EFFORTS TO TARGET AND TERMINATE MONEY LAUNDERING ORGANIZATIONS IS THE TREASURY FINANCIAL LAW ENFORCEMENT CENTER OR "TFLEC" WHICH IS LOCATED AT CUSTOMS HEADQUARTERS AND STAFFED WITH CUSTOMS AND IRS PERSONNEL. I BELIEVE TFLEC IS ALREADY FAMILIAR TO YOU. I'LL BRIEFLY SUMMARIZE ITS ACTIVITIES AND CAPABILITIES AT THIS TIME.

TFLEC IS BOTH A CLEARING HOUSE AND ANAYLTICAL CENTER FOR ALL BANK SECRECY ACT DATA (BSA), COLLATERAL INTELLIGENCE, AND ON-GOING INVESTIGATIVE SUPPORT. THE BSA FORMS, AS YOU ARE AWARE, ARE THE CUSTOMS FORM 4790 (REPORT OF INTERNATIONAL TRANSPORTATION OF CURRENCY OR MONETARY INSTRUMENTS OR CMIR); THE IRS FORM 4789 (CURRENCY TRANSACTION REPORT OR CTR); AND THE (TD 90-22-1) FOREIGN BANK ACCOUNT OR FBA FORM ISSUED BY TREASURY. THE CMIR MUST BE FILED WHENEVER THERE IS TRANSPORTATION OF CURRENCY OR MONETARY INSTRUMENTS VALUED IN EXCESS OF $10,000 INTO OR OUT OF THE COUNTRY. THE CTR MUST BE FILED BY A FINANCIAL INSTITUTION RECEIVING OR DISBURSING CURRENCY IN AMOUNTS OF $10,000 OR MORE. THE FBA REPORT MUST BE FILED BY U.S. CITIZENS OR RESIDENT ALIENS IF THEY MAINTAIN A FOREIGN BANK ACCOUNT/ACCOUNTS EQUALING MORE THAN $5,000 IN AGGREGATE FORM DURING A CALENDAR YEAR. THE DATA FROM THESE

REPORTS IS COMPILED AT TFLEC AND CAN BE ACCESSED BY LAW ENFORCEMENT AGENCIES FOR USE IN CRIMINAL INVESTIGATIONS AND PROCEEDINGS. OF COURSE, WE ARE CONCERNED WITH FINANCIAL PRIVACY ISSUES, AND THE DATA CAN ONLY BE RELEASED AFTER STRICT DISSEMINATION REQUIREMENTS ARE MET. TFLEC ALSO GENERATES A MYRIAD OF ANALYTICAL REPORTS USING BSA DATA WHICH ARE AVAILABLE TO FEDERAL LAW ENFORCEMENT AGENCIES UNDER THE SAME DISSEMINATION REQUIREMENTS.

USING RAW DATA AND THE RESULTANT ANALYSES, TFLEC HAS BEEN ABLE TO IDENTIFY THE MONEY FLOW OF LARGE-SCALE NARCOTIC TRAFFICKERS THAT HAS RESULTED IN ENFORCEMENT ACTION INCLUDING ARRESTS AND SEIZURES OF LARGE AMOUNTS OF CASH.

TFLEC DOES NOT RESTRICT ITS ANALYTICAL EFFORTS ON NARCOTICS TRAFFICKING ONLY, BUT RATHER FOR ALL AREAS OF LAW ENFORCEMENT, INCLUDING ILLEGAL CRITICAL TECHNOLOGY EXPORT, TERRORISM, FRAUD, ETC. THE INTERNAL REVENUE SERVICE, THE SECURITIES AND EXCHANGE COMMISSION, THE FEDERAL BUREAU OF INVESTIGATION, THE DRUG ENFORCEMENT ADMINISTRATION AND NUMEROUS OTHER FEDERAL AGENCIES AVAIL THEMSELVES OF TFLEC'S SERVICES IN PURSUING INVESTIGATIONS OF VIOLATIONS WITHIN THEIR SCOPE OF ENFORCEMENT RESPONSIBILITY.

I WOULD NOW LIKE TO CITE SOME RESULTS OF OUR EFFORTS IN FINANCIAL LAW ENFORCEMENT INCLUDING THE DETECTION AND INVESTIGATION OF MONEY LAUNDERING SCHEMES. THESE FIGURES ARE DRAWN FROM DATA PROVIDED BY TASK FORCES IN WHICH CUSTOMS IS

THE INITIATOR OF INVESTIGATION OR A PARTICIPANT. THE TASK FORCES INCLUDE THE 13 REGIONAL ORGANIZED CRIME DRUG ENFORCEMENT TASK FORCES AND OPERATION EL DORADO.

THE FIGURES FOR FY 84 ARE:

ARRESTS	658
INDICTMENTS	779
CONVICTIONS	261
CURRENCY SEIZED	$ 33.2 MILLION
PROPERY SEIZED	$ 29.6 MILLION

NARCOTIC SEIZURES

COCAINE	236.2 KILOS
HEROIN	21.8 KILOS
MARIJUANA	53,458
OTHER	6.5 KILOS

THE DRUG TRAFFICKER, AS ANY OTHER ENTREPRENEUR, MUST MAINTAIN A CONTINUOUS CASH FLOW IN ORDER TO CONTINUE OPERATIONS. WHEN THE CASH FLOW IS DISRUPTED OR TERMINATED, THE BUSINESS, BE IT LEGITIMATE OR ILLICIT, WILL FALTER OR FAIL.

I WOULD NOW LIKE TO DISCUSS SEVERAL INTERESTING INVESTIGATIONS THAT HAVE RECENTLY TERMINATED OR ARE STILL UNDERWAY.

DUE TO ONGOING PROSECUTION AND LITIGATION ACTION, I CANNOT IDENTIFY ANY SPECIFIC GEOGRAPHIC AREA OR OTHER REFERENCES WHICH COULD IDENTIFY THE INVESTIGATIONS.

EXAMPLE: I

A JOINT U.S. CUSTOMS AND IRS INVESTIGATION WAS INITIATED IN EARLY 1983, PREDICATED BY A TFLEC ANALYTICAL REPORT INDICATING UNUSUAL CTR ACTIVITY CONCERNING A BOUTIQUE. ANALYSIS HAD DISCLOSED THE BOUTIQUE WAS MAKING LARGE CASH DEPOSITS IN SEVERAL BANKS IN TWO U.S. CITIES.

INVESTIGATION REVEALED THAT THE MONETARY ACTIVITY WAS STEADILY INCREASING FROM APPROXIMATELY $50,000 IN 1979 TO OVER $10 MILLION FOUR YEARS LATER. TFLEC BEGAN TO MONITOR THE BUSINESS ACTIVITY WHICH RESULTED IN IDENTIFYING NEW BANKS, ACCOUNTS, AND ACCOUNT OWNERS. DEPOSIT ACTIVITY IN DECEMBER 1983 CAUSED AGENTS TO INITIATE A SURVEILLANCE WHICH CULMINATED IN THE EXECUTION OF A SEARCH WARRANT AND THE SEIZURE OF MORE THAN $150,000. CHEMICAL ANALYSIS OF THE CURRENCY BY THE MIAMI DEA LABORATORY REVEALED TRACES OF COCAINE ON THE MONEY. THIS INVESTIGATION CONTINUES AND IT IS EXPECTED THAT SEVERAL INDICTMENTS CHARGING BSA AND DRUG LAW VIOLATIONS WILL BE ISSUED SHORTLY.

EXAMPLE: II

IN JANUARY 1984, TWO INDIVIDUALS WHO WERE EXCHANGING U.S. CURRENCY FOR CASHIER'S CHECKS IN DENOMINATIONS OF LESS THAN $10,000 FOR EACH CHECK WERE IDENTIFIED. THIS DISCOVERY RESULTED IN A TWO-MONTH U.S. CUSTOMS AND IRS INVESTIGATION

WHICH UNCOVERED A MAJOR CHECK PURCHASING SCHEME USED TO CONVERT U.S. CURRENCY INTO CASHIER'S CHECKS AT VARIOUS U.S. BANKS. UTILIZING THE SCHEME, INDIVIDUALS WOULD GO TO SEVERAL BANKS IN A SINGLE DAY AND PURCHASE CASHIER'S CHECKS FOR AMOUNTS UNDER THE $10,000 REPORTING REQUIREMENT. IN LATE MARCH 1984, THE SOURCE OF THE CURRENCY WAS IDENTIFIED AS A SUBJECT OF SEVERAL OTHER CUSTOMS/IRS FINANCIAL INVESTIGATIONS.

IN APRIL 1984, CUSTOMS AND INTERNAL REVENUE SPECIAL AGENTS EXECUTED A SEARCH WARRANT ON THE SUBJECT'S CONDOMINIUM. AN ASSOCIATE OF THE SUBJECT WAS ARRESTED LEAVING THE CONDOMINIUM. HIS CAR WAS SEARCHED THE NEXT DAY PURSUANT TO A SEARCH WARRANT AND YIELDED $100,000 IN U.S. CURRENCY. THE CAR WAS SEIZED. THE SEARCH OF THE CONDOMINIUM RESULTED IN THE SEIZURE OF BOOKS AND RECORDS; VARIOUS PARAPHERNALIA INCLUDING A COUNTERFEIT DETECTOR AND PAPER SHREDDER; $218,800 IN U.S. CURRENCY; AND $523,110.11 IN CASHIER'S CHECKS AND MONEY ORDERS. THE MAIN SUBJECT WAS ARRESTED AND HIS CONDOMINIUM AND VEHICLE WERE SEIZED. ANOTHER ASSOCIATE WAS ARRESTED AT HIS RESIDENCE AND HIS CAMPER WAS SEIZED. SUBSEQUENTLY, AGENTS SERVED SUBPOENAS ON A BANK REQUESTING THE CONTENTS OF TWO ACCOUNTS ($194,000) WHICH WAS SUBSEQUENTLY SEIZED. THE TOTALS OF THE SEIZURES AMOUNTED TO $1,073,817 IN U.S. CUURENCY/CASHIER'S CHECKS AND THREE VEHICLES VALUED AT $25,890.

LATER IN APRIL, A FEDERAL GRAND JURY RETURNED AN INDICTMENT AGAINST THE THREE CHARGING THEM WITH ONE COUNT OF

CONSPIRACY AND FOUR COUNTS OF EACH (FALSE STATEMENTS AND AIDING AND ABETTING), ALL IN VIOLATION OF THE BSA. ON JUNE 12, 1984, THE THREE DEFENDANTS PLED GUILTY AND AGREED TO THE FORFEITURE OF FOUR VEHICLES AND $984,455.

ON JULY 12, 1984, THEY WERE SENTENCED TO TERMS RANGING FROM 3 YEARS PROBATION TO 4 YEARS IMPRISONMENT.

EXAMPLE: III

ANOTHER EXAMPLE OF U.S. CUSTOMS EFFORTS RESULTED WHEN TFLEC ASSISTANCE WAS REQUESTED BY THE JAMAICAN GOVERNMENT. INFORMATION SHOWED THAT PRIOR TO OCTOBER 1983, TWO INDIVIDUALS FILED OVER 200 CMIR'S AT A LARGE INTERNATIONAL AIRPORT TOTALING APPROXIMATELY $15 MILLION. THE CMIR'S SHOWED THAT THE CURRENCY ORIGINATED IN JAMAICA AND THAT THE MONEY BELONGED TO TWO JAMAICAN INDIVIDUALS.

IN MARCH OF 1984, ONE OF THE INDIVIDUALS WAS CONVICTED OF 28 VIOLATIONS OF THE JAMAICAN CURRENCY CONTROL LAWS AND THREE VIOLATIONS OF JAMAICAN CUSTOMS LAWS FOR AIDING THE VIOLATION OF CURRENCY CONTROL LAWS. A U.S. CUSTOMS AGENT TESTIFIED FOR THE JAMAICAN GOVERNMENT IN THE CASE. THE SUBJECT WAS SENTENCED TO ONE YEAR IMPRISONMENT ON EACH COUNT AND FINED $23 MILLION ($7 MILLION IN U.S. CURRENCY).

IN JUNE OF 1984, THE OTHER INDIVIDUAL WAS CONVICTED OF 36 VIOLATIONS OF THE JAMAICAN CURRENCY CONTROL LAWS REGARDING THE TRANSPORTATION OF $5 MILLION OUT OF JAMAICA INTO THE UNITED STATES.

EXAMPLE: IV

A CLASSIC EXAMPLE OF MONEY LAUNDERING CONCERNS THE INVESTIGATION OF A CLOSELY KNIT INTERFAMILIAL ORGANIZATION BASED IN COLOMBIA WHICH WAS INVOLVED IN MAJOR CURRENCY EXCHANGE/MONEY LAUNDERING OPERATIONS ON AN INTERNATIONAL SCALE; 18 FAMILY MEMBERS WERE IDENTIFIED AS PRINCIPALS. THE PRINCIPALS CREATED FOUR PANAMANIAN "PAPER" CORPORATIONS AND ONE U.S. DOMESTIC CORPORATION THROUGH WHICH THE ILLEGAL ACTIVITIES OF THE ORGANIZATION WERE CONDUCTED AND CONCEALED WITHIN THE UNITED STATES. THE PRINCIPALS REPORTED THAT ALL U.S. CURRENCY DELIVERED TO U.S. BANKS WAS FROM THEIR FOREIGN EXCHANGE ACTIVITIES IN COLOMBIA AND THAT THE INTERNATIONAL TRANSPORTATION OF CURRENCY WAS REPORTED TO U.S. CUSTOMS AS REQUIRED BY LAW. HOWEVER, OF THE $77 MILLION IN U.S. CURRENCY DELIVERED TO ONE BANK BY THE ORGANIZATION, ONLY $10 MILLION WAS REPORTED TO U.S. CUSTOMS AS BEING TRANSPORTED OR RECEIVED BY THE ORGANIZAITON FROM COLOMBIA.

THE ORGANIZATION WAS A SHELL CORPORATION SUPERVISED BY A COLOMBIAN IN THE U.S. AND TWO BROTHERS-IN-LAW IN COLOMBIA. THE DOMESTIC RECEIPT AND DISBURSAL OF U.S. CURRENCY WAS CONTROLLED THROUGH AN AUTO LEASING FIRM. FOUR OTHER SHELL CORPORATIONS WERE FORMED TO FURTHER CONCEAL DOMESTIC CURRENCY EXCHANGE ACTIVITIES. DEPOSITS OF U.S. CURRENCY IN EXCESS OF $165 MILLION WERE TRACED TO THE ORGANIZATION'S ACCOUNTS IN THE U.S.

THE ORGANIZATION ALSO OPERATED A BLACK MARKET CURRENCY EXCHANGE IN BARRANQUILLA AND SAN ANDRES, COLOMBIA, AS WELL AS THE UNITED STATES. THE ORGANIZATION ACQUIRED U.S. CASH IN COLOMBIA BY SELLING COLOMBIAN PESOS, OR CHECKS FOR PESOS, TO INDIVIDUALS WHO HAD U.S. DOLLARS THAT THEY WANTED TO CONVERT TO COLOMBIAN CURRENCY. THE ORGANIZATION PERFORMED CURRENCY EXCHANGES AT A RATE MORE BENEFICIAL TO A CLIENT THAN THE COLOMBIAN BANKS WOULD PROVIDE. THE FLAT EXCHANGE RATE THAT THE ORGANIZATION UTILIZED WAS FLEXIBLE, ACCORDING TO MARKET CONDITIONS, BUT ALWAYS INCLUDED A BUILT-IN PROFITABLE SERVICE CHARGE. THE ORGANIZATION FAILED TO REPORT DOMESTIC U.S. TRANSACTIONS WITH VARIOUS CLIENTS AS WELL AS TRANSPORTATIONS ACROSS THE U.S. BORDER IN AN ATTEMPT TO DEFRAUD THE U.S. GOVERNMENT. THE FAILURE TO REPORT DOMESTIC TRANSACTIONS AND THE FAILURE TO REPORT INTERNATIONAL TRANSPORTATIONS WERE INSEPARABLE ACTS OF A CONTINUING PATTERN OF ILLEGAL ACTIVITY.

THE U.S. CUSTOMS AND IRS INVESTIGATION IN THE VIOMAR CASE HAS RESULTED IN TEN INDICTMENTS AND THE APPLICATION OF A $23 MILLION CIVIL PENALTY WHICH EFFECTIVELY DISMEMBERED THE ORGANIZATON. TWO INDIVIDUALS AND ONE CORPORATION PLED GUILTY; ALL OTHERS ARE FUGITIVES; LOCATIONS UNKNOWN, BUT PROBABLY IN COLOMBIA.

THE MAJORITY OF "MONEY LAUNDERING" SCHEMES REMINDS ME OF A JUGGLING ACT. IN THIS FINAL INSTANCE WE FOUND THAT AN INDIVIDUAL AND HIS ORGANIZATION FACILITATED THE LAUNDERING OF OVER $4,360 MILLION IN 18 MONTHS; THE INDIVIDUAL WOULD FLOAT

CHECKS AHEAD OF THE RECEIPT OF CASH TO BE LAUNDERED. WHEN WE REACHED IN AND SEIZED $10 MILLION, IT UPSET THE JUGGLING ACT AND THE REST OF THE "FLOATING ACCOUNT" COLLAPSED IN A HEAP--- ANOTHER $10 MILLION IN FLOATED CHECKS BOUNCED! THE WALKER CASE WILL BE FURTHER EXPANDED FOR YOU BY MY STAFF.

IN SUMMATION, MONEY LAUNDERING HAS BECOME AN INTERNATIONAL BIG BUSINESS IN ITS OWN RIGHT. THE U.S. CUSTOMS SERVICE IS PROUD TO BE PART OF THE MULTI-AGENCY, MULTI-DISCIPLINED, AND EVEN, MULTI-NATIONAL COOPERATIVE EWNFORCEMENT EFFORTS WHICH ARE A MOST EFFECTIVE MEANS TO FIGHT THIS INSIDIOUS ACTIVITY. HOWEVER, WE COULD NOT HAVE BEGUN THIS FIGHT WITHOUT THE LEGISLATIVE SUPPORT OF THE CONGRESS AND THE CONTINUED INTEREST AS REPRESENTED BY HEARINGS SUCH AS THIS. THE CUSTOMS SERVICE SUPPORTS THE CONCEPT OF CREATING LEGISLATION WHICH WILL ALLOW FOR ADMINISTRATIVE SUBPOENAS AND WILL DEFINE "MONEY LAUNDERING" AS A CRIME. WE LOOK FORWARD TO A CONTINUED ACTIVE ROLE IN "MONEY LAUNDERING" ENFORCEMENT.

THANK YOU FOR YOUR INTERST, YOUR SUPPORT AND THE OPPORTUNITY TO PRESENT THIS TESTIMONY.

Senator D'AMATO. I am staggered by the amounts of money and, in the one case, where you talk about the $165 million moving in and out and the $360 million amount.

Thank you, Commissioner.

Assistant Commissioner, Richard Wassenaar.

RICHARD WASSENAAR, ASSISTANT COMMISSIONER, IRS, FOR CRIMINAL INVESTIGATIONS

Mr. WASSENAAR. Thank you for the opportunity to testify concerning the Internal Revenue Service's efforts to use the laws within its jurisdiction to attack the financial aspects of money laundering.

We at the Internal Revenue Service believe that devoting substantial resources to the investigation of money laundering is appropriate not only because of the significant amount of revenue that can be collected but also because the Service's tax administration expertise can be focused on the motive for drug trafficking—the huge illegal profits involved.

In order to stem the flow of drugs, we must attack the motive for this illegal activity.

The IRS is strongly committed to participate in the concerned Federal effort because those who profit from illegal activities, especially narcotics trafficking, undoubtedly receive substantial income on which no tax is paid.

We make every effort to investigate and prosecute those guilty of tax crimes. But when that is coupled with other perhaps more sinister crimes against society, there is a clear-cut obligation on our part to combine our resources with those of other agencies to identify and prosecute the perpetrator.

I would like to begin with a brief review of the Bank Secrecy Act in order to place our activities in perspective.

As a result of concerns expressed by law enforcement over the laundering of illegally generated proceeds through domestic banks and foreign tax havens, Congress passed the Foreign Bank Secrecy Act in 1970—Public Law 91-508.

ACT PROVIDES FOUR BASIC TOOLS

The act provides four basic tools to identify those who attempt to conceal their participation in crimes where substantial amounts of currency are generated, and to provide a basis to prosecute those who fail to comply with its requirements.

The act focuses on individuals involved in the flow of currency, as opposed to those involved in the substantive violations that generated the currency.

Legislative history of the act shows that Congress explicitly recognized the value of the act in supporting the enforcement of the Internal Revenue Code.

The four basic tools provided are:

One, a paper trail of bank records that must be maintained for up to 5 years.

Two, a currency transportation report [CTR] that must be filed by banks and other financial institutions whenever a currency transaction over $10,000 occurs.

Three, a currency or monetary report [CMIR] whenever currency or monetary instruments over $10,000 are taken into or out of the United States. Offenses relating to the transportation of currency across U.S. borders is investigated by U.S. Customs.

Four, a foreign bank account report [FBAR] is required whenever a person has an account in a foreign bank over $5,000 in value.

The penalties associated with violations of the Bank Secrecy Act are: Civil: $10,000 per violation; criminal: maximum prison term of 5 years and a fine up to $250,000.

When the violation is: Committed in furtherance of the commission of any other violation of Federal law, or

Committed as part of a pattern of illegal activity involving transactions exceeding $100,000 in any 12-month period, may, upon conviction thereof, be fined not more than $500,000 or be imprisoned not more than 5 years, or both.

Since the enactment of the Bank Secrecy Act, the Service has made outstanding progress in its enforcement efforts. Since 1972, when IRS initiated its first investigation of apparent currency violations, there have been over 700 such IRS investigations. These are cases on money laundering specialists, their couriers, corrupt bankers, and their banks.

Since 1972, there have been 405 prosecution recommendations, 281 indictments, and 165 convictions with jeopardy and termination assessments exceeding $815 million.

It should be noted that the latter figure does not include assessments in general tax cases.

I would like to mention that the majority of our money laundering cases are worked in cooperation with U.S. Customs. This has created a forum of improved interagency coordination and has opened new communication channels.

Of the 700 cases, IRS has placed over 120 U.S. banks under criminal investigation for possible currency violations. These investigations have targeted the corporate structure as the defendant, as well as one or more high-ranking officers.

Of those investigations involving U.S. banks there have been over 25 recommended for prosecution which resulted in criminal fines totaling over $1 million.

In addition to the enforcement of the criminal penalties under the act, IRS is in the unique position to focus both on those involved in the flow of funds and also those involved in the activities that generated the funds.

Individuals with untaxed currency often hire money laundering specialists to launder their earnings. Since the money laundering specialists are brokering funds that belong to others, they may not be subject to prosecution for tax crimes, or for substantive violations relating to the activities that generated the funds. Title 31 is a statute that can fill this void.

As a result of tracing the flow of funds during title 31 investigations, we have discovered numerous allegations of potential income tax violations. The allegations center on the clients of the money laundering specialists who earned the funds being laundered, or on others identified as a result of trading large cash transactions through bank records to determine if title 31 violations were committed.

In fact, one of the best sources of title 26 cases has been leads discovered during title 31 investigations.

Current inventory shows that 20 percent of our money laundering investigations result in tax evasion charges.

At this time, I would like to share with you some specific cases where the Service and our counterpart investigative agencies were able to disrupt money laundering operations.

GLOBAL UNION BANK OF NEW YORK

Case 1: In June 1984, the Global Union Bank in New York was indicted by a Federal grand jury for failing to report $1.1 million in cash deposited in the bank as part of a money laundering scheme.

The bank and its former officer were charged with failing to file on a timely basis currency transaction reports totaling almost $1.1 million, which was deposited into two corporate accounts between August and November 1982.

The deposits which ranged from $33,000 to $140,000 were made by an individual in New York, but the money actually belonged to South Americans.

These South Americans channeled the money into Global Union through this individual and a former commodities account executive with a well-known stock brokerage firm in New York.

GREAT AMERICAN BANK OF MIAMI

Case 2: On December 13, 1982, the Great American Bank, Miami, FL, and three former officers were indicted on charges of laundering $95 million in drug proceeds.

Also, 3 other indictments were returned naming 12 other defendants, among which were two Miami-based corporations.

This indictment stemmed from a 2-year investigation in Miami as part of Operation Greenback. One of the defendants, Isaac Kattan, a Colombian national, is known to have hauled huge sums of money into the bank on a daily basis.

He and his associates carried millions of dollars stuffed in cardboard boxes and shopping bags into the bank, occasionally assisted by bank guards.

Kattan laundered $60 million through the Great American Bank in 1981, including $7 million in 1 week. Some of the money was used to purchase cashiers checks. Other money was deposited to various accounts which were used to purchase cashiers checks in the name of a fictitious third party.

At the time of Kattan's arrest, agents also seized a small amount of cocaine, $300,000 in cash, and records detailing the movement of suspected drug money through Miami banks to Switzerland and South America.

The Great American Bank in some instances failed to file and filed false currency transaction reports with the Internal Revenue Service for about 400 transactions ranging from $18,000 to $837,530. Banks in Lima, Peru, and Zurich, Switzerland, were among the receiving banks.

The bank and the three former officers were also accused of conspiracy to defraud the United States and willful failure to file and filing false currency transaction reports.

The investigation disclosed that Kattan's banking transactions had been falsely prepared by bank officers who assisted Kattan's laundering operation. The three former bank officers helped Kattan exchange millions of dollars in cash for cashiers checks without filing the necessary Government forms.

In April 1984, the Great American Bank pled guilty to four felony counts of failure to file currency transaction reports and was subsequently fined $500,000—$125,000 suspended. Of the three employees charged, two employees received 3½ years in prison and the third employee's case is still pending.

BOTERO ORGANIZATION

Case 3: In January 1981, several Colombian nationals—known collectively as the Botero Organization—and United States citizens were charged with attempting to launder $72 million in U.S. currency through the branch of a Fort Lauderdale bank in an 8-month period.

It was alleged that this currency represented payments from domestic narcotics organizations to Colombian source suppliers for cocaine and marijuana smuggled into the United States and distributed through domestic trafficking organizations.

This ultimate street value of the drugs would be over half a billion dollars. While this $72 million represents the wholesaler's receipts, it includes none of the profits reaped by the domestic organizations.

The Botero Organization enlisted the assistance of three bank officers at a small branch of a major Florida bank. Being paid a cash fee of 0.5 to 1 percent of the moneys to be laundered, the officers opened numerous bank accounts in fictitious names with fictitious identification.

The idea was to accept the cash deposits, run this cash through the bank accounts and file false currency transaction reports.

The funds would then be wire transferred from the numerous accounts at the primary bank to a correspondent account of a foreign bank in Miami. From this second account the funds would be wire transferred offshore and distributed to other accounts in a foreign country.

The U.S. dollars would then be available for a variety of uses, including sale on the black market for Colombian pesos or simply to secure wealth in U.S. dollar instruments.

The currency deposited into this small branch bank in Fort Lauderdale was but one contributing factor to the enormous imbalance in the amount of currency into the Miami branch of the Federal Reserve.

In subsequent court actions, one bank employee was convicted of violations of the Bank Secrecy Act and related violations including conspiracy to defraud the U.S. Government and sentenced to 2 years in Federal prison.

Roberto Botero, a south Florida realtor, was convicted in the same case and sentenced to 8 years in Federal prison.

His brother, Hernan Botero, a prominent Colombian businessman and owner of the national soccer team in Colombia, became

the first Colombian national ordered extradited to the United States by the supreme court of Colombia.

Hernan Botero recently returned to the United States for trial as one of the four initial Colombian citizens extradited. The trial on this investigation is scheduled for February in Miami. Civil jeopardy tax assessments against Hernan Botero totaled approximately $18 million.

PROBLEMS ASSOCIATED WITH CASH

Case 4: Because of the phenomenal volume of street currency generated by drug trafficking, it becomes a problem for the criminal to decide what to do with the bags, sacks, and boxes of cash.

It becomes impractical to carry a briefcase full of cash to make daily purchases.

Also, carrying such huge amounts of cash is not only unsound from an investment standpoint, but also dangerous.

If I may, I would like to draw an analogy for you. Last summer, Colombian officials burned approximately 14 tons of cocaine. Assuming this reached the United States and assuming payment was made in $20 bills, the conversion of 10,900 kilos at $25,000 per kilo wholesale would be equivalent to 14 tons of $20 bills. The street value of these drugs would be over 100 tons of $20 bills.

In conclusion, money laundering schemes do not guarantee immunity from prosecution for the criminal or his money laundering specialists. These schemes only make it more difficult to discover the crimes that are concealed, and to gather the evidence necessary to prosecute those involved.

Last October, the President's Commission on Organized Crime issued a draft report on the money laundering problem. It contained a number of recommendations for enhancing the effectiveness of the Bank Secrecy Act.

This increased attention to the problem will undoubtedly have a positive effect in reducing money laundering activities. Through the joint efforts of Congress, the Commission, and various responsible agencies of Government, financial laundering schemes perpetrated by members of sophisticated criminal cartels should be substantially curtailed.

Mr. Chairman, this concludes my testimony; I would now be pleased to to respond to any questions the committee may have.

[Complete statement of Richard C. Wassenaar follows:]

43-487 O—85——3

Testimony of

RICHARD C. WASSENAAR

Assistant Commissioner, Criminal Investigation
Internal Revenue Service

SENATE SUBCOMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

PERMANENT SUBCOMMITTEE ON SECURITIES

MONDAY, JANUARY 28, 1985

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We make every effort to investigate and prosecute those guilty of tax crimes. But when that is coupled with other perhaps more sinister crimes against society, there is a clear-cut obligation on our part to combine our resources with those of other agencies to identify and prosecute the perpetrator.

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The four basic tools provided are:

- A paper trail of bank records that must be maintained for up to 5 years.

- A Currency Transaction Report (CTR) that must be filed by banks and other financial institutions whenever a currency transaction over $10,000 occurs.

- A Currency or Monetary Instruments Report (CMIR) whenever currency or monetary instruments over $10,000 are taken into or out of the U.S. Offenses relating to the transportation of currency across U.S. borders is investigated by U.S. Customs.

- A Foreign Bank Account Report (FBAR) is required whenever a person has an account in a foreign bank over $5,000 in value.

The penalties associated with violations of the Bank Secrecy Act are:

Civil:

$10,000 per violation

Criminal:

- Maximum prison term of five years and a fine up to $250,000.

- When the violation is:

Committed in furtherance of the commission of any other violation of Federal law, or

Committed as part of a pattern of illegal activity involving transactions exceeding $100,000 in any 12-month period, may, upon conviction thereof, be fined not more than $500,000 or be imprisoned not more than 5 years, or both.

Since the enactment of the Bank Secrecy Act the Service has made outstanding progress in its enforcement efforts. Since 1972, when IRS initiated its first investigation of apparent currency violations there have been over 700 such IRS investigations. These are cases on money laundering specialists, their couriers, corrupt bankers and their banks. Since 1972, there have been 405 prosecution recommendations, 281 indictments, and 165 convictions with jeopardy and termination assessments exceeding $815 million dollars. It should be noted that the latter figure does not include assessments in general tax cases.

I would like to mention that the majority of our money laundering cases are worked in cooperation with U.S. Customs. This has created a forum of improved interagency coordination and has opened new communication channels.

Of the 700 cases, IRS has placed over 120 U.S. banks under criminal investigation for possible currency violations. These investigations have targeted the corporate structure as the defendant, as well as one or more high ranking officers. Of those

investigations involving U.S. banks there have been over 25 recommended for prosecution which resulted in criminal fines totaling over $1 million dollars.

In addition to the enforcement of the criminal penalties under the Act, IRS is in the unique position to focus both on those involved in the flow of funds and also those involved in the activities that generated the funds. Individuals with untaxed currency often hire money laundering specialists to launder their earnings. Since the money laundering specialists are brokering funds that belong to others, they may not be subject to prosecution for tax crimes, or for substantive violations relating to the activities that generated the funds. Title 31 is a statute that can fill this void.

As a result of tracing the flow of funds during Title 31 investigations, we have discovered numerous allegations of potential income tax violations. The allegations center on the clients of the money laundering specialists who earned the funds being laundered, or on others identified as a result of tracing large cash transactions through bank records to determine if Title 31 violations were committed. In fact, one of the best sources of Title 26 cases has been leads discovered during Title 31 investigations. Current inventory shows that 20% of our money laundering investigations result in tax evasion charges.

At this time, I would like to share with you some specific cases where the Service and our counterpart investigative agencies were able to disrupt money laundering operations.

CASE 1

In June 1984, the Global Union bank in New York was indicted by a federal grand jury for failing to report $1.1 million in cash deposited in the bank as part of a money laundering scheme.

The bank and its former officer were charged with failing to file on a timely basis currency transaction reports totaling almost $1.1 million, which was deposited into two corporate accounts between August and November 1982. The deposits which ranged from $33,000 to $140,000 were made by an individual in New York but the money actually belonged to South Americans. These South Americans channeled the money into Global Union through this individual and a former commodities account executive with a well known stock brokerage firm in New York.

CASE 2

On December 13, 1982, the Great American Bank, Miami, Florida and three former officers were indicted on charges of laundering $95 million in drug proceeds. Also, three other indictments were returned naming 12 other defendants, among which were two Miami based corporations.

This indictment stemmed from a two year investigation in Miami as part of Operation Greenback. One of the defendants, Issac Kattan, a Colombian national, is known to have hauled huge sums of money into the bank on a daily basis. He and his associates carried millions of dollars stuffed in cardboard boxes and shopping bags into the bank, occasionally assisted by bank guards.

Kattan laundered $60 million through the Great American Bank in 1981, including $7 million in one week. Some of the money was used to purchase cashiers checks. Other money was deposited to various accounts which were used to purchase cashiers checks in the name of a fictitious third party. At the time of Kattan's arrest, agents also seized a small amount of cocaine, $300,000 in cash and records detailing the movement of suspected drug money through Miami banks to Switzerland and South America.

The Great American Bank in some instances failed to file and filed false currency transaction reports with the Internal Revenue Service for about 400 transactions ranging from $18,000 to $837,530. Banks in Lima, Peru, and Zurich, Switzerland were among the receiving banks.

The bank and the three former officers were also accused of conspiracy to defraud the United States and willful failure to file and filing false currency transaction reports. The investigation disclosed that Kattan's banking transactions had been falsely prepared by bank officers who assisted Kattan's laundering operation. The three former bank officers helped Kattan exchange millions of dollars in cash for cashiers checks without filing the necessary government forms.

In April, 1984, the Great American Bank pled guilty to four felony counts of failure to file currency transaction reports and was subsequently fined $500,000 ($125,000 suspended). Of the three employees charged, two employees received 3½ years in prison and the third employee's case is still pending.

CASE 3

In January 1981, several Colombian nationals (known collectively as the Botero Organization) and U.S. citizens were charged with attempting to launder $72,000,000 in U.S. currency through the branch of a Fort Lauderdale bank in an eight month period. It was alleged that this currency represented payments from domestic narcotics organizations to Colombian source suppliers for cocaine and marijuana smuggled into the United States and distributed through domestic trafficking organizations. This ultimate street value of the drugs would be over half a billion dollars. While this $72,000,000 represents the wholesalers receipts, it includes none of the profits reaped by the domestic organizations.

The Botero Organization enlisted the assistance of three bank officers at a small branch of a major Florida bank. Being paid a cash fee of 0.5 to 1.0% of the monies to be laundered, the officers opened numerous bank accounts in fictitious names with fictitious identification. The idea was to accept the cash deposits, run this cash through the bank accounts and file false currency transaction reports. The funds would then be wire transferred from the numerous accounts at the primary bank to a correspondent account of a foreign bank in Miami. From this second account the funds would be wire transferred offshore and

distributed to other accounts in a foreign country. The U.S. dollars would then be available for a variety of uses, including sale on the black market for Colombian pesos or simply to secure wealth in U.S. dollar instruments.

The currency deposited into this small branch bank in Fort Lauderdale was but one contributing factor to the enormous imbalance in the amount of currency into the Miami branch of the Federal Reserve.

In subsequent court actions, one bank employee was convicted of violations of the Bank Secrecy Act and related violations including conspiracy to defraud the U.S. Government and sentenced to two years in federal prison. Roberto Botero, a south Florida realtor was convicted in the same case and sentenced to eight years in federal prison. His brother, Hernan Botero, a prominent Colombian businessman and owner of the national soccer team in Colombia, became the first Colombian National ordered extradited to the United States by the Supreme Court of Colombia. Hernan Botero recently returned to the United States for trial as one of the four initial Colombian citizens extradited. The trial on this investigation is scheduled for February in Miami. Civil jeopardy tax assessments against Hernan Botero totaled approximately $18 million.

CASE 4

Because of the phenomenal volume of street currency generated by drug trafficking, it becomes a problem for the criminal to decide what to do with the bags, sacks and boxes of cash. It becomes impractical to carry a briefcase full of cash to make daily purchases. Also, carrying such huge amounts of cash is not

only unsound from an investment standpoint, but also dangerous. If I may, I would like to draw an analogy for you. Last summer Colombian Officials burned approximately 14 tons of cocaine. Assuming this reached the U.S. and assuming payment was made in $20 bills, the conversion of 10,900 kilos at $25,000 per kilo wholesale would be equivalent to 14 tons of $20 bills. The street value of these drugs would be over 100 tons of $20 bills.

In conclusion, money laundering schemes do not guarantee immunity from prosecution for the criminal or his money laundering specialist. These schemes only make it more difficult to discover the crimes that are concealed, and to gather the evidence necessary to prosecute those involved.

Last October, the President's Commission on Organized Crime issued a Draft Report on the money laundering problem. It contained a number of recommendations for enhancing the effectiveness of the Bank Secrecy Act. This increased attention to the problem will undoubtedly have a positive effect in reducing money laundering activities. Through the joint efforts of Congress, the Commission, and various responsible agencies of government, financial laundering schemes perpetrated by members of sophisticated criminal cartels should be substantially curtailed.

Mr. Chairman, this concludes my testimony; I would now be pleased to respond to any questions the Subcommittee may have.

Senator D'AMATO. Thank you all for your testimony. I know that we have some detailed examples and witnesses who will deal in specifics.

Let me ask you all this one question, and you might want to answer it in your own way.

VIEWS ON LEGISLATIVE PROPOSAL

How do you view the legislative proposal that I have put forth as aiding in your investigation?

Mr. WALKER. Mr. Chairman, on behalf of the Treasury Department, this would be a tremendous benefit to law enforcement. It would enable us directly to obtain through administrative summonses the records necessary in these cases.

At the present time we don't have that power. This is like operating with one hand tied behind your back. We need that power to be able to generate the kind of evidence that is so necessary in enforcing the law here, particularly imposing the civil penalties.

We are talking about the civil side and if we can get the substantial civil penalties and the evidence for substantial forfeitures, we can go at the financial base of these organizations in a manner that we cannot do at the present time.

By attacking the financial base, as you pointed out, that we can cripple these organizations, the people are fungible.

You can lock up some people and other people come in to pick it up. Drugs can be taken off the street and more may be taken from Colombia and come in.

Once you destroy the financial base, then the capital is gone, used to finance this activity is what we need to focus our attention on.

Your bill would give us that administrative summons and also increase our ability to forfeit the large sums of money that are deposited in the financial institutions illegally, and we would not be limited to a $10,000 amount, but we can go for the entire amount of moneys deposited.

That would be a tremendous weapon against money laundering and drug trafficking.

Mr. VON RAAB. I would agree with Secretary Walker. Your legislation would provide us with much-needed additional powers in order to effectively continue to go after these money launderers and in the same breath the drug traffickers and I support it.

Senator D'AMATO. If you have any other views that might aid you in your efforts, you can give it to us now or by way of further written testimony or ideas.

I think that it is rather important for this committee to focus in on this. What legislative recommendation would you want to offer or see to make your jobs easier?

Mr. WALKER. If I might mention, Mr. Chairman, something that has been brought to our attention and is currently up for consideration, although the Government has not formulated a final position on it, because it is something that was brought out of the Organized Crime Commission report which was recently developed, which is the entire area of possibly adjusting the balance in the Financial Privacy Act which would enable honest bank employees

who, when confronted with criminal transactions or suspicious transactions, go to law enforcement as any other citizen.

Senator D'AMATO. Suppose a citizen walks in with a large amount of cash, and this is not the person who is known to make large cash transactions on his own or for a business that he or she represents, such as one of your large retail establishments that might have large sums of cash at any one time. Let's say that person makes that deposit and the bank employee is suspicious as to how it could be that somebody could come into possession of $75,000, $100,000, or $200,000 in bills of various denominations.

At the present time, is he or she precluded from making that information known to the law enforcement agencies?

Mr. WALKER. Yes, the details are precluded from being disclosed. The current law provides that even if the person acts in good faith and discloses to law enforcement they can be subject to a civil lawsuit.

The issue that is raised here is: Is there not some way to relax the Right to Privacy Act to allow law enforcement to obtain the information and at the same time provide a good faith defense to this employee who acts in good faith?

The transaction that comes in may look suspicious but may be legitimate.

NEED TO CHANGE PRESENT LAWS

Senator D'AMATO. You are not suggesting that the right of the individual who makes that financial transaction, that he or she not be informed if there is a subpoena? Under the present law, are they notified if there is a subpoena served?

Mr. WALKER. Yes; that's a big problem that you put your finger on for law enforcement.

Under the present law, if we serve the subpoena, the Government has to notify the customer.

We do have the power to go into court and ask the court to delay that notification to the customer, and also ask the court to enjoin the bank from disclosing to the customer, but that requires an additional judicial proceeding and a showing before the court.

In addition to that, there are no sanctions for a person other than proceeding through a contempt proceeding; there are no sanctions against an employee for failure to abide by that.

That's another real problem for law enforcment here.

Mr. VON RAAB. Another possibility would be to increase the penalty under the BSA which is now 5 years or to make some of it mandatory.

It would appear at least that the courts are reluctant to get tough on new BSA acts for fines and stiffer penalities.

On that list there, one of the parties has done his time and is back in Colombia and is probably back in business. It would be helpful that we can send messages to judges that if we have a bad guy, that they should give him a tough sentence. As it is now, 5 years doesn't mean much.

Senator D'AMATO. One of the things with respect to truth in sentencing, and the panel working on that, the sentence of 5 or 20 years doesn't mean that. People sentenced to 20 years are out in 5,

and people sentenced to 5 years are out in a little more than 1 year. The truth in sentencing is important.

Let me thank the panel. We deeply appreciate your cooperation.

We will leave the record open for any additional testimony that you would like to submit.

[Response to written questions of Senator D'Amato can be found on p. 139.]

We will move on to panel 2: James Harmon, Jr., the Executive Director on the President's Commission on Organized Crime.

What we are really doing is looking for the financial institution's good judgment and enabling the financial institutions to make these judgments in a good-faith effort where they ascertain that there is something wrong, something that is not legitimate—then we can give them the opportunity or afford them the opportunity to make that information available.

JAMES D. HARMON, JR., EXECUTIVE DIRECTOR, PRESIDENT'S COMMISSION ON ORGANIZED CRIME

Mr. HARMON. In effect, putting financial institutions, banks some of which are several blocks from here, being used by narcotic traffickers in the past, and it is the same as a citizen who witnessed a crime and notifying law enforcement agencies.

BANK OFFICIALS RESPONSIBILITY

Senator D'AMATO. In your hearing have you heard any testimony from any bank officials who have seen transactions, but because of the Privacy Act did not report?

Mr. HARMON. The *Orosco* case here in Manhattan, the investigators went back into the banks to see the transactions from the point of view of the bank officials involved.

Senator D'AMATO. That they were suspicious and there was nothing they could do?

Mr. HARMON. Yes, as in the Marine Midland Bank, they felt that they made a notation which I am paraphrasing, "Look out" or "Watch out for this one," and they felt that the law prevented them from doing anything more than that.

You might be interested in hearing the judgment on this issue in general, the issue which you are dealing with here today from someone who has spent his life in the world of business, and I refer to Malcolm Forbes, the editor and chief of Forbes magazine, in the December 17 issue of Forbes magazine.

"Is it not appalling that the banks have to be——"

Senator D'AMATO. Yes, I saw the article.

Mr. HARMON. If local managers don't know how many sums are being washed through their offices, they should be dismissed for incompetence and if they do, dismissal could be even quicker.

Senator D'AMATO. Let me suggest to you that this hearing has produced much in the way of very illuminating information for this Senator.

I suggest that we hold further hearings in Washington with the hope that my colleagues, not only in the Banking Committee, but in others can get a firsthand account of this situation, because I think it is certainly one that we should have a record on.

In my own analysis of the situation, I have failed heretofore to include this very important perspective on the problem.

Mr. HARMON. I think you have struck on a crucial area with respect to providing information to law enforcement which financial institutions are in possession of as does the proposals about which we have discussed more directly here today and which are at issue today.

The President's Commission has endorsed both of the proposals which you have backed and introduced, which is to give administrative subpoena power as well as increased civil violations with respect to the BSA.

If I may point out what the Commission has done and what the Commission has not done and explain why your two proposals strike at what we think as the point of attack in the money laundering cycle.

I have here to my right a stylized version of the money laundering cycle. It does address one of the ways of laundering money as through Colombia or the use of foreign exchanges.

DOMESTIC LAUNDERING OF CASH

The Commission has taken a look at the domestic laundering of cash. The cash goes into the domestic system indicated by the No. 4789, which is the required form to be filled out in transactions over $10,000.

The Commission has not addressed another aspect of the laundering cycle where cash is physically transported outside of the United States. That is a matter that we have under analysis.

I would be happy to answer any questions that you might have.

Senator D'AMATO. Let me say to you that I am deeply appreciative of the work of the Commission, of your work and efforts, and your testimony today.

Going maybe one step further than even the immediate purposes of this hearing, which are obviously to see if we cannot come up with more effective ways to deal with this problem, can you tell me what suggestions you have, and I understand your comments on the BSA and I will move to examine those and undertake such legislative initiatives.

Would you have any other suggestions in terms of dealing with the drug trafficking and how we might effectively deal with this menace?

Mr. HARMON. The primary recommendation is to make money laundering itself a crime.

The Bank Secrecy Act scheme in essence permits the investigation once the money has entered the international financial system.

What this proposal by the Commission would do would be to provide some indepth information from the other side of the teller's window, and although there are many recommendations made in the report, that would be the primary recommendation that the Commission has made of that point.

Senator D'AMATO. To what extent do you see Federal laws conflicting with the various State laws?

Mr. HARMON. With respect to the BSA, there is extensive conflict. In some instances the State laws are more restrictive with respect to disclosure.

What the Commission has recommended is that there be a preemption feature to provide a uniform approach to disclosure under Federal disclosure laws.

Senator D'AMATO. Are you aware of whether the wire transfers out of the United States would also have to be reported?

Mr. HARMON. They are not required to be reported.

Senator D'AMATO. Does that open a loophole?

Mr. HARMON. That's one of the issues that the Commission is looking at now, the extent to which, if I would briefly go through our analysis.

You are talking about a wire transfer and the money has been reduced to an electronic signal, and this is just an idea which has been discussed in hearings with Commission to keep that information available to Treasury and to law enforcement via computer.

It simply may not be practical, but the issue is under analysis by the Commission at this time.

Senator D'AMATO. It would seem to me that might be a major loophole and that more and more transactions will be taking place in this manner.

Mr. HARMON. You are correct, the wire transfer does provide a form of insulation and it relies heavily on foreign secrecy laws to hide the party's identity.

Senator D'AMATO. We would be very much gratified by your work in this area, and if you would keep us advised of it even for nonpublic purposes so that we could analyze it and have the benefit of your work.

Mr. HARMON. I would be happy to do that. You can see from the composition of the Commission that we are expected to work in partnership with all branches of government as well as the private sector.

Senator D'AMATO. Thank you, sir. Send my best wishes to the judge.

[Complete statement follows:]

Statement of the Honorable Irving R. Kaufman
Chairman
President's Commission on Organized Crime

Committee on Banking, Housing and Urban Affairs
United States Senate

January 28, 1985
U.S. Court of International Trade
New York, New York

I have testified before Congressional committees on numerous occasions during my thirty five years as a federal judge. Today, however, I offer this statement not in my role as a judge or the United States Court of Appeals, but rather as the Chairman of the President's Commission on Organized Crime. I welcome the opportunity to urge the Banking Committee to consider and act upon the recommendations contained in the interim report on money laundering released by the Commission.

As you know, the commission was established by President Reagan in July 1983 with a mandate to investigate the scope and extent of organized crime in the United States today, and to recommend new legislative and law enforcement strategies to confront the growing power of organized crime. In accepting the President's appointment to be Chairman of the Commission, I described organized crime as a "parasitic and cancerous" institution that was continuing to flourish within the body politic. I noted that traditional strategies, directed solely at the prosecution of individual members of criminal syndicates, had been largely ineffective. To this end, I stated to the President and the Attorney General that this Commission would develop novel proposals designed to attack the lifeblood of organized crime--its ability freely to spend or invest the proceeds of its illegal activities.

The report on money laundering we released in October, 1984, "The Cash Connection," addresses this critical aspect of the organized crime threat--the ability of criminal enterprises to conceal the illegal nature of their profits and thereby to continue to thrive while masking themselves in a cloak of legitimacy. At a White House ceremony in which I presented the first copies of the report to the President and the Attorney General, I noted that this effort represented the culmination of months of in-depth work by the members and staff of the Commission. Our recommendations, I explained, were creative remedial measures that, when implemented, would make it substantially more difficult for criminal cartels to launder their illicitly obtained profits.

At today's hearing, your Committee will hear persuasive evidence that the sophistication and intricacy of criminal schemes to disguise the nature of illicitly earned funds is increasing at an accelerating rate. The Commission's investigation uncovered numerous instances in which profits from drug trafficking or other criminal activity were introduced into national and international capital markets and converted into accounts or instruments that effectively concealed the origins of the funds. The case studies in the report reveal how respected financial institutions either knowingly or unintentionally permit themselves to be utilized by money launderers.

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I would belabor the obvious if I were to aver that the money laundering problem imposes unacceptable social costs on our nation. As billions of dollars of illegally earned funds move through our economy, tax revenue is lost, law enforcement resources are burdened, and, most importantly, the continued existence of widespread organized crime activity is facilitated as these "businessmen" accumulate the capital needed to finance their activities.

The recommendations in the Commission's report represent a multifaceted response to the problems of money laundering. Foremost among our proposals is the enactment of a new statute--the Financial Institutions Protection Act--that would prevent banks and other financial institutions from being used unwittingly as conduits for the transfer of illegally-acquired funds. In addition, the Commission's proposed legislation would for the first time make the activity of laundering a criminal offense, enabling law enforcement authorities to confront this problem directly. Although the statutory recommendations included in our report are vitally important, in isolation they are an inadequate solution to the problems engendered by laundering schemes. Accordingly, our suggestions also include voluntary remedial measures that can be adopted by financial institutions, as well as administrative safeguards to be implemented by the Secretary of the Treasury. I believe the Commission's three-pronged strategy to confront money laundering will provide law enforcement officials and financial institutions with the tools necessary to detect and prevent laundering schemes.

There has been widespread interest in the Commission's findings from the legal and the financial community. The staff of the Commission has received literally hundreds of requests for copies of the study, and the response to our proposals has been decidedly positive. I urge this Committee to consider favorably the merits of the new legislation and other recommendations detailed in the interim report.

As the revelations from the Commission's hearings make clear, organized crime today is a more pernicious and sophisticated force than ever before. Traditional criminal groups have entered into new areas of activity, and new organizations have become active in a wide variety of endeavors. The Commission's recommendations are designed to do no less than render unprofitable organized crime. I am confident that by attacking the lifeblood of organized crime, we may finally have dealt it a death blow.

Senator D'AMATO. Thank you very much, Linda, for coming here today.

Linda, we are going to proceed with the three other panelists and if you will just wait a moment you can be assured that no one will see who you are and the media has been really excellent and has never taken advantage of this situation.

Before we go on, I want to tell you that I am deeply appreciative of the personal sacrifice that you have made in aiding the committee.

Let's start with Linda first.

Again I am deeply appreciative of your cooperation with this committee.

"LINDA," MATERIAL GOVERNMENT WITNESS

LINDA. It is an opportunity for me to get back.

Senator D'AMATO. Let us have you proceed with your testimony in your own way.

LINDA. I know that this is a hearing in money laundering and I did participate in that as well as a drug smuggling situation.

I became involved with Mr. Walker when my brother was a copilot to smuggle in marijuana and was subsequently arrested in Colombia.

I got involved because I was persistent to get him released down there.

Senator D'AMATO. While you were trying to get your brother released you became involved in the drug operation?

LINDA. Yes, absolutely.

Senator D'AMATO. What are the kinds of things that you were involved in and let us talk about the laundering and the operation in your own words.

LINDA. You have to excuse my voice. I have to have surgery and I postponed it for this event.

INVOLVED WITH MR. WALKER

I met Mr. Walker probably at the Fountainbleau Hotel or the Coconut Hotel in Florida, which is a smuggler's haven.

I asked him if he could get my brother out of jail. He said he was not sure about that and that my brother was trying to rip him off getting pot into Mexico and subsequently I became Mr. Walker's mistress and I helped him in his operation and I went with him on several occasions to banks to change money to cashier's checks.

We went to approximately eight banks in 1 day. Also he made it clear that he never deposited in banks any amount over $10,000 because that would keep him from coming under suspicion.

He gave me quite a deal of cash. He had a lot of money. He had an endless amount, it seemed. There would be nothing that I could not ask for that he was not capable of getting; a car, bought me jewelry, paid my rent, sent my dogs to the groomers. It was limitless.

He considered the authorities a farce. He said that if he could make a couple of million dollars, what is 1 year in jail when you can come out to $2 million, which to him was insignificant.

Senator D'AMATO. How did he use the Bahamian banks, did he use attorneys, accountants?

LINDA. Yes, he had offshore trusts. He had one bank in the Caicos Islands and he was also opening up or intended to open up banks in Nassau.

He would put everything in the attorney's name so that he would never get caught because you have the attorney-client relationship and this way he stayed out of the eyes——

Senator D'AMATO. How much money went into this, the trust with the attorney?

LINDA. I couldn't tell you verbatim. When he was starting into the cocaine operation in Colombia and he gave this man $150,000 in cash in good faith to show he could do everything he said he could.

Senator D'AMATO. So that was a down payment which you witnessed.

LINDA. Yes; I carried down to Colombia on one occasion $50,000, which was to get one of the people working for his organization out of jail. This was the cost.

I think it was about $180,000, it cost to get the gentleman out of jail in his operation and they just paid off an official and the guy was released.

Senator D'AMATO. When one of his people got in trouble in Colombia, you are saying that you brought down $50,000 and you think that it was about $180,000 to get the gentleman out of jail by paying a Colombia official.

LINDA. Yes.

Senator D'AMATO. When did that take place?

LINDA. April 1980. I went and spoke to the Governor of the island of San Andreas and the Governor told me personally that for $80,000 that he could be released immediately.

Senator D'AMATO. You eventually got your brother out?

LINDA. No; he served his 3 years and was released.

Senator D'AMATO. You couldn't get Walker to give you the money?

LINDA. No; I couldn't do it. In fact, when he got his man out of Colombia that's when I broke off the relationship because I realized that it was futile.

Senator D'AMATO. What most impressed you about the Walker organization?

TOTAL DISREGARD OF BEING CAUGHT

LINDA. Their arrogance and the complete disregard of being caught. The planes they had could outfly Government planes.

Senator D'AMATO. That has been one of my big complaints. Did he know that?

LINDA. Yes; he made sure of it.

Senator D'AMATO. What about the radio equipment?

LINDA. He would monitor, DEA, FBI, local authorities. He knew when they were watching him. He had arranged for a deal of a large amount of cocaine to be smuggled in and he put the lid on it because somebody called him that he was being watched.

How could you lose when you had everything covered.

Senator D'AMATO. What were some of the deals, or the largest magnitude of a deal that you saw or heard about or that his organization transacted?

LINDA. I believe it was for 30 pounds of cocaine which is about, I think—no, 30 kilos of cocaine which is about $60,000 a kilo for cocaine was the deal he put the lid on because he was warned by somebody that he was being watched. This was a man who was on parole.

Senator D'AMATO. He was on parole?

LINDA. I believe so.

Senator D'AMATO. Did he come back from the United States and Colombia?

LINDA. Yes; we went several times to Colombia and on many occasions to the Bahamas. He had his own 414 Cessna with two pilots who went down there.

He was going to make the island the base of his smuggling operation.

Senator D'AMATO. How old was he?

LINDA. Early fifties.

Senator D'AMATO. What happened to him?

LINDA. He was killed by the Colombians because he didn't carry through with a deal. He had a philosophy that he should always use other people's money which is what he did and they eventually caught up with him.

Senator D'AMATO. What about the rest of his organization?

LINDA. They are in jail. My testimony helped to do that, 18 people.

Senator D'AMATO. Before he was finally—his organization was broken and he was killed, will you describe where he lived. Did he own his own home?

LINDA. Yes; and he also had homes for his pilots and stash houses in central Florida and had an orange grove where he could land.

He had an island in the Bahamas where he could change, unload into small boats and bring the stuff in. Also he had a plane that was confiscated in the Caicos Islands and there was somebody who stole the plane back from the Government.

Senator D'AMATO. How long was he in this business?

LINDA. I was only associated with him for a few months. His main ambition was to build an empire which he was pursuing at the time of his death.

Senator D'AMATO. He was a relatively minor operator and you saw him get these stash houses and the pilots' houses; how could we be more effective in our battle against drugs?

LINDA. First I would recommend cleaning up the Bahamas because you can go to any island there and pay off any official $5,000, which to a smuggler is a tip.

You can do anything in the islands.

Senator D'AMATO. The Bahamas in terms of drugs, et cetera, is wide open and for sale.

LINDA. Yes; absolutely. The islands are the predecessor to Florida.

He often spoke about having a couple of crazy pilots who would go over and refuel in the islands and fly in through Miami International Airport because no pilot would be crazy enough to do that.

Senator D'AMATO. Were there protection devices such as weather balloons?

LINDA. Yes.

Senator D'AMATO. Did you ever transport drugs?

LINDA. I transported cocaine from Miami.

Senator D'AMATO. Were you frightened?

LINDA. No; he told me what to do, not to carry the key to the trunk on me. If I was stopped I had no idea what was in the trunk so that I could walk away.

He—everyone who worked with him and around him, they were all quite convinced that they could outsmart the law. They had no fear.

I once transported marijuana to Chicago for him to a friend that he made when he was in jail.

Senator D'AMATO. How did you transport that?

LINDA. In the trunk of a car. He would go to an automobile agency—and I don't know how he did it—and buy fleets of cars and give those to his employees.

He had Mercurys and the LTD's which had the largest trunks, which is what he often emphasized.

Senator D'AMATO. He was quite an entrepreneur, wasn't he.

LINDA. Yes.

Senator D'AMATO. What about your brother?

LINDA. I have not seen him or talked to him. I have not contacted any member of my family. They prefer it that way.

Senator D'AMATO. I thank you for your testimony and for taking your time to be here and also at great personal risk.

Where do you now live?

LINDA. I don't think I am at liberty to say. I live in a small community, population approximately 50,000.

Senator D'AMATO. You live in a small town now that is not in the New York metropolitan area.

LINDA. Yes.

DRUGS IN SMALL COMMUNITIES

Senator D'AMATO. You have a story that my counsel has indicated, in terms of what you see and in terms of addiction and drug overdoses in your community, which is many miles from the New York area.

LINDA. Absolutely. I just watched a young girl of 23 overdose in our community and about 1 month later her young sister admitted to shooting up cocaine since age 12.

They have no rehabilitation center in the community that I am in but have a center in the—a few miles away.

It is my pleasure to be here because anything that I can do to put back all that I have received and I just wish that they would have Mothers Against Drugs. They have Mothers Against Drunk Driving.

I understand from this young girl that I spoke to that this was peer pressure, this was the thing to do at age 12, to get high. I didn't have my first drink of alcohol until I was 21.

This is a community that is many, many, many miles away from here and not in this areas but in an area where people would be shocked, where people think that the drug epidemic is in the large urban areas and it is nationwide.

This area is not geared to deal with the problem and if it is infiltrating there——

Senator D'AMATO. Do you think that many of the people in the community know that this is taking place?

LINDA. No; I think they choose to look the other way. This is an apathetic society and they look the other way.

I would say to clean up the Bahamas. I say you cannot stop it but you can certainly curb it.

Senator D'AMATO. Thank you very much for coming in and if you want to stay while the others testify you may.

Good luck to you.

LINDA. Thank you very much. I have a 3.6 average in school.

Senator D'AMATO. That's grand. You did a lot better than this Senator.

[Criminal history of "Linda" follows:]

CRIMINAL HISTORY OF "LINDA," FIRST "HOODED WITNESS"

Linda's information helped bring down a major cocaine trafficking organization.

She first went to cocaine dealer Robert Walker to ask him to help get her brother out of jail in Colombia. Her brother had flown drugs for Walker. She quickly became Walker's mistress.

In 1980, she took cocaine for Walker from Miami to drug distributors in Ocala, where Walker had a "stash house." She sat in on a number of deals involving cocaine, marijuana, and quaaludes. She took marijuana for him to Chicago and to Atlanta.

She was with him when he visited eight different banks in one day to get cashier's checks to evade the reporting laws. She can testify that Walker was careful that all of his deposits were for less than $10,000.

"Linda" made numerous visits with Walker to the Bahamas and Colombia as part of his drug business. She went with him to the Bahamas to help him look for new sites to land his planes and to open a branch of his bank.

In April 1980, "Linda" went with Robert Walker to Bogota, Colombia to meet a Colombian who was about to become his new cocaine supplier and she was there when Walker handed the Colombian a suitcase with $150,000 in "good faith" money to seal the deal.

In June 1980 she took another $50,000 down in a suitcase to Colombia for Walker.

"Linda" can testify that you can pay off "anyone you need to" in the Bahamas, Colombia, and Venezuela. She saw their judges, military personnel, and police take bribes. One Colombian regional governor solicited a bribe from her. She can testify in detail about Walker's airport, his many landing strips in Florida, his bank in the Bahamas, front corporations, airplanes, "state of the art" radio and other surveillance equipment. After the Government started making arrests in this case, Robert Walker was killed by Colombian drug dealers.

Linda is now in the Federal Witness Protection Program. She wants the opportunity to urge the Congress to "wake up" to how bad the drug problem has become. She lives in a small town of 50,000, and has stories of addiction and death by drug overdose among young people even in her town.

She can testify that the drug dealers today are not deterred by our present enforcement effort. They have more than enough money to keep "one step ahead" of law enforcement. Robert Walker could listen in on DEA and police radio communications whenever he wanted. His planes could outfly the Government planes.

She says the penalties imposed today are a "farce." If you earn several million dollars a year from drugs, even if you get caught, you're not likely to spend more than a year in jail, and it's worth it.

She wants tougher laws, more discipline in the schools, and a "Mothers Against Drugs" comparable to the "Mothers Against Drunk Driving."

If you ask her where to start, she'll say: "Start with the Bahamas, our own backyard."

Senator D'AMATO. Bonni, you have an incredible story here by looking at my notes.

Ms. TISCHLER. Sir, I beg your indulgence, Mr. Fagan was the agent in charge of that case. The part I played was an undercover role but the overall case was very interesting because Mr. Walker was an extremely complex individual.

Senator D'AMATO. Mr. Fagan, Customs Service special agent in charge of the New York Seaport.

We wish you the best of luck and if there is any way that we can help you we will try.

DENNIS FAGAN, CUSTOMS SERVICE SPECIAL AGENT IN CHARGE OF THE NEW YORK SEAPORT

Mr. FAGAN. Basically the $180,000 that Linda was talking about, $90,000 of it was for the release of the North American, Mr. Walker's associate, and the other $90,000 was for three Colombians arrested at the same time.

Americans cost a lot more in Colombia for release.

The reason that Mr. Walker's aircraft were able to evade our detection devices, that was prior to the incentive of the Vice Presidential task force were there, the devices that are in place now.

I would like to move over to the chart now.

Senator D'AMATO. Certainly.

Mr. FAGAN. Mr. Walker was not the target of the investigation that started Operation Greenback but an individual known to us as Fabio Harreo.

Senator D'AMATO. How big was his operation?

ROBERT WALKER—A LOW-LEVEL OPERATOR

Mr. FAGAN. I believe we identified approximately $50 million which were run through the accounts through 1980 based upon studies from TFLEC.

Robert Walker in the scheme of things was a low-level operator.

Senator D'AMATO. A low-level operator?

Mr. FAGAN. Yes. He was a drug smuggler himself.

In 1973 Robert Walker was convicted for smuggling marijuana and a mail fraud scheme. He was sentenced to 3 years in Lexington, in the Federal facility.

In 1976 he was released from a halfway house in St. Petersburg and at which time he incorporated the British West Indies Corp.

By 1979 he expanded to the BWI Corp. and that is where he leased the vehicles and the aircraft that he owned, putting the ownership in the name of a third party and if they were seized carrying narcotics and they were an instant third party and the vehicles were returned to them after petitioning the Government and used again.

There is a corporation known as the Rose of Tampa.

Senator D'AMATO. Is that still going on, that technique?

Mr. FAGAN. Yes; it was what we refer to as leaseback of aircraft where they will lease the aircraft from somebody and if it is captured, it belongs to an innocent third party.

Senator D'AMATO. Let me ask you this: Is that so-called innocent third party really innocent?

Mr. FAGAN. Very often the innocent third party is not so innocent and unless you can develop a criminal case against it you are not that successful.

Senator D'AMATO. A lot of that is going on in Canada where they lease the cars and run them over the border.

Mr. FAGAN. Yes, it is cheaper and better than owning the aircraft themselves.

This changes from operation to operation. This Tampa corporation was a corporation where he would hold all of his assets, the real estate, the orange groves, and the business he owned.

And the other one, the Tedo Realty and the hub was the North Tampa Airport which he leased through another company which happened to be a Cayman Island corporation which some years after this organization went down was discovered to be owned by another smuggling organization.

The individuals that you have encircled here in white are the conspirators and the co-conspirators on the domestic side of Mr. Walker's organization.

Here in the box is a common-law wife of Mr. Walker who was the president of the corporations and he was not in the corporations.

These are just shells but he controlled them.

In 1979 he received the charter for a bank in the Caicos Islands which is a lower part of the Bahamas which became the pivotal point of his operation.

On the side marked in blue are the source of supplies of the narcotics he brought into the United States.

Then the red side has the distributors, Florida, Tampa, Atlanta, and Brayton.

Except for one of these individuals, all of these people were arrested and convicted to jail terms.

We did not come up with any narcotics or money in this mainly because of the fact that we were so new to it and the complexity of Mr. Walker's operation.

Mr. Walker used a bank, the Caicos Bank and we had the charter revoked through the cooperation of the Government and had a search warrant served.

After spending 4 days in the islands microfilming the records, the bank records, the IRS sat down and reviewed the records and found out that it was not a bank but a shell company up front.

We found that Mr. Walker would run the money through this corporation to a trust in a bank in the Bahamas. Behind that trust is how he concealed all of his money.

We did not have the Bank of Nova Scotia case at the time which allows us to subpoena the records. Unfortunately at the time we did not.

Mr. Fabio is presently incarcerated in the United States for 8 years.

This fellow known as Johnny Crump was arrested on a separate indictment and he became a star witness for the Government in the Colombian-Cuban drug for arms case held in Miami.

CUBAN GOVERNMENT INVOLVEMENT

Mr. Crump traveled to Cuba in 1981 and negotiated with the Cuban Government for the rights of using their territorial waters to allow vessels with marijuana and quaaludes to avoid our Coast Guard.

He is presently a Government witness but is now on 26 years probation.

Senator D'AMATO. Let me ask you something at this point.

You heard Linda speak about the Bahamas; would you care to comment on her statement with respect to the Bahamas and what it is like in terms of drug trafficking.

Does that put you on a spot?

Mr. FAGAN. Yes, it does. I can refer to the Turks and Caicos Islands and the help they gave us.

Where Mr. Walker made the mistake with the bank is when one of the aircraft was seized at one point and being the ultimate con man, he didn't like that.

He sent one of his pilots there and stole the plane back and the authorities didn't like that and cooperated with us.

Prior to the bank being shut down he used Turks and Caicos here not only as a place of putting his money——

Senator D'AMATO. Is it in a similar pattern to the drug flow from the Bahamas to the United States?

Mr. FAGAN. Yes, sir. If you invert this that is the currency flow backward.

Senator D'AMATO. Drugs from Colombia through the islands to the United States.

Mr. FAGAN. Yes, in 1981 he was using the Turks-Caicos Islands for money and refueling and after refueling they would fly nonstop to the United States, usually going below the radar along the east coast and come in well inland.

The pilots who were arrested were trained by the U.S. Army as bush pilots.

Here the money would be wire transferred to the Colombia bank or the Colombians would meet him in the Caicos Islands and then send his profit to the trust in the Bahamas.

Senator D'AMATO. In his drug relationship with the Colombian dealers, was that on consignment or was hard money put up first?

Mr. FAGAN. At that point in time a lot was coming in on consignment until he stopped paying which was his ultimate downfall.

Mr. Walker did not do anything with his own money.

And if Mr. Harmon or yourself was a source of supply, he would use your money to pay Mr. Harmon and vice versa but never use his own money.

He was the ultimate con man. When the banks were shut off to him in the Caicos Island then he went out and got aircraft with long range tanks that could make the run to Colombia. They would fly to 13 clandestine fields in Colombia.

In the beginning he was mostly bringing back marijuana and quaaludes and at the end cocaine.

He wanted to make the quantum leap from although profitable, the more profitable by aircraft—the most profitable the cargo is the more money you make.

What he wanted to do was to make the leap to cocaine. Fabio Mia became his source of cocaine.

Senator D'AMATO. What is the status of that individual at this time?

Mr. FAGAN. He is incarcerated. He was captured in San Francisco and sentenced to 8 years.

Senator D'AMATO. Have you received any cooperation from him since he was incarcerated?

Mr. FAGAN. He absolutely did not want to cooperate at all.

Senator D'AMATO. With those incaracerated who receive part time, do we have any rate of cooperation percentage?

Mr. FAGAN. Linda phrased it right, depending on how much money they have they can serve the time.

Fabio said he could do the 52 months standing on his head. This is not a poor man.

When his father would die he would stand to inherit several million dollars and they own a ranch and cattle company in Colombia.

Senator D'AMATO. The father has the ranch and business, but we don't know where he got the money for the ranch and business.

Mr. FAGAN. The father got it through legitimate means? Cocaine is what he considered to be low risk.

He joined the partnership with Mr. Walker and showed Mr. Walker a lab on the farm where they would develop it.

Senator D'AMATO. Walker was a relatively small operator.

Mr. FAGAN. Yes, definitely a low-leveled operator.

BIG OPERATIONS

Senator D'AMATO. Can you state any cases in Colombia that are much bigger?

Mr. FAGAN. Yes, there are cases where there are organizations moving several metric tons in 1 year easily, a smuggling organization.

Senator D'AMATO. Who runs it?

Mr. FAGAN. Individuals, I could say Fabio.

Senator D'AMATO. Do we have a good idea who they are?

Mr. FAGAN. Yes, sir.

Senator D'AMATO. What kind of cooperation are we receiving from the Colombian Government?

Mr. FAGAN. We just started getting extradition on some of the people there.

Since the tragic killing of the Minister of Justice down there it has increased multifold.

Colombians have probably the most effective means of deterring cooperation.

Mr. McDonald and Ms. Tischler can tell you of many acts where families are killed.

The witness that you have here, although Linda is an American, and the other gentleman is at great risk, if they knew who he was because they would think nothing of killing his family.

Senator D'AMATO. Like in Queens here in New York where they killed the baby.

Mr. FAGAN. Yes; it is very effective.

Every time we get a person who will turn around and give the Government information, they are at great risk.

Mr. Crump, we had to get his son paroled out of Bogota and into the United States before we could even acknowledge that he was even cooperating with the Government. It is very effective.

Mr. Walker himself was killed 30 days after we arrested him in a money laundering scheme where Ms. Tischler will go into detail of how she, once we penetrated the organization, Ms. Tischler, her role was that of a higher rung member of a narcotics organization here in the United States that needed an avenue to launder its money.

Mr. Walker was going to provide us with the offshore laundering operation to do that.

She will explain that.

If you have any additional questions I will be happy to answer them later on.

Senator D'AMATO. Thank you very much.

Ms. Tischler, how did you get into this business?

BONNIE TISCHLER, CUSTOMS SERVICE DIRECTOR FOR FINANCIAL INVESTIGATIONS

Ms. TISCHLER. Which business?

Senator D'AMATO. Undercover agent.

Ms. TISCHLER. We were out on another assignment and were discussing the *Walker* case, Dennis and I, and he suddenly had this brainstorm and said:

> We never used a woman in a high level capacity, and only as a witness to what was occurring and as a girl friend. We will use you and you can be the first president and see if Walker buys it.

We were having trouble in seeing how he was laundering the money.

Through another undercover agent who was a pilot who somehow introduced himself to one of Walker's pilots and indicated to Walker that he knew money people who wanted to use Walker's resources, we met in Atlanta.

Mr. Fagan is afraid to fly on planes and I said that it would have been really convenient to Walker if that plane had not gotten in.

I talked to him in Atlanta and told him that our organization was having trouble in laundering money in south Florida. Greenback was very much in the news and what we just had with the Panamanian bank.

ROLE IN LAUNDERING SCHEME

We knew the people, some of the methods and it was very convincing to him. My role was basically to convince him that we couldn't get into the banks anywhere thanks to the nasty old feds who had shut the banks down to my money laundering scheme.

Senator D'AMATO. How did you convince him?

Ms. TISCHLER. I have to state that his arrogance was par excellence and was so convinced that the Federal Government could not touch him and that I was a female agent, he basically was convinced in terms of my story and consequently at that meeting and at several later meetings laid out how he got the money over to the Bahamas and the other thing is how smart he was as far as the interlocking trust as Dennis described.

The DEA managed to acquire the property and the aircraft.

Mr. FAGAN. We basically turned over all evidence that we had and they were successful in doing that.

Senator D'AMATO. At some point in time did you have to give him money to show that you did have access to money to launder?

Ms. TISCHLER. Yes, we did.

Finally Mr. Walker, through being extremely magnanimous and gracious, is that he would provide his aircraft as a servicing vehicle and he would show us how the money would be worked in the Bahamas and we brought in $500,000 from the Federal Reserve in Miami and took it up to Tampa.

There was another agent that we introduced as my big boss and we took, or I took $25,000 into him and he couldn't put it into his pocket and took it right to his house which was next to the airport.

My alleged boss brought the money in and we were to fly in two aircraft to the Bahamas.

Mr. Fagan didn't tell you, but the airport was in a residential area and was impossible to get to by land. There was one little dirt road that came down to this small airport and we had to take extreme measures to get in and we had to use two customs helicopters to prevent him from taking off.

We captured Walker, two pilots, and one of his associates.

Mr. FAGAN. That associate was the Bahamian citizen who was the president of the bank.

Senator D'AMATO. You had secured his organization or was he working with Walker as the conduit for the bank in the Bahamas?

Mr. FAGAN. No, sir, we arrested him.

Senator D'AMATO. So that he was the front for Walker.

Mr. FAGAN. Yes.

Senator D'AMATO. What did he do with that money after that?

Mr. FAGAN. It went into the trust. You put the money into the trust and make your attorney, the holder of the trust, make his accountant as an employee of the—not only do you use the Bahamian secrecy laws but the bank as a shield.

We were never able to pierce it.

Senator D'AMATO. What about the attorney?

Mr. FAGAN. He died a year later in the midst of negotiating with another undercover operation.

WALKER KILLED BY COLOMBIANS

Mr. Walker was killed by a group of Colombians who he owed for the last deal that was done where he claimed he did not have the money but they read the newspaper account which stated that he had $450,000 and they wanted their money.

They took him and they strangled him in a car.

We were successful in identifying a confidential informant to provide us with information who drove the car and we were successful in getting that individual and obtaining that confession and that person will stand trial for first-degree murder.

Senator D'AMATO. Was that a Colombian national?

Mr. FAGAN. No, a U.S. naturalized citizen. He was given 10 years and will stand trial for first-degree murder.

Senator D'AMATO. What would your assessment of the structure of the Colombian organization be; do they operate like a family group?

Mr. FAGAN. Yes, sir, definitely.

Senator D'AMATO. Highly disciplined?

Mr. FAGAN. Yes, I would say so especially the money laundering portion of the thing is almost totally family controlled.

Very seldom do they go outside of the family.

Senator D'AMATO. So that penetration becomes difficult.

Mr. FAGAN. Yes, almost impossible unless you can get someone that they hired from the outside and they let in.

They are a lot more security conscious with the money than the narcotics. The narcotics grows twice a year and the Fed produces only so much money per year.

Ms. TISCHLER. It was obvious to us that there were two types of money laundering organizations, a service organization which was difficult to get at because they use the money as the commodity.

Senator D'AMATO. Who runs that, the families themselves?

Ms. TISCHLER. Yes, they are ethnically based and the new legislation allowed us to get in.

It was very difficult to get into a group and you cannot get in by undercover means.

Then you have the service organization which is set up as a normal corporation and have a vice president of financial matters and vice president of narcotics operations.

Except for the top few people, they are pretty well divided because they don't trust the top persons with the money, or they have not to our knowledge.

Senator D'AMATO. Mr. McDonald, how are we doing with the new law?

MICHAEL R. McDONALD, IRS SPECIAL AGENT, MIAMI, FL

Mr. MCDONALD. Very good. Everything that you have seen and heard today, and there is only one reason why there is drug smuggling in the country and sold in the schoolyards, which is the money, that is the driving force be it a domestic organization or international.

It is because of money, narcotics organizations make money and use cash dollars, and not with credit cards, and start in the schoolyards with $1, $5, $10, and $20 and just build.

There are two things that they have to do with the cash, pay for their product. That's the bulk of the currency that we have seen going through south Florida.

They have to make payment to the source of supply down in South America.

Second, they must launder their product through classic laundering techniques. If they are living in the United States, they want to use the money and don't want to pay taxes on it and move it offshore and bring it back in some fictitious manner.

I really don't think that people in the United States, the banking industry, legislators, law enforcement personnel really comprehend the volume of money in terms of pounds of money, in terms of total weight and commodity itself that the narcotics money generates and the corruptive influence that it causes.

These cash dollars must be utilized in some form to either pay the Colombians or pay for the product.

DANGER OF PAPER TRAIL

The domestic banks are not used because of the paper trail. They cannot afford and are too greedy and don't want the tax bite out of the profits and must deal with currency and must pay the Colombians which is fairly simple: Drop off a suitcase full of cash.

And to put things in perspective in terms of what we are talking about——

Senator D'AMATO. Do they actually fly tons of money back to Colombia?

Mr. FAGAN. Yes.

In May 1983, Mike and I were supervising Greenback and had an opportunity to work on a case and what I am saying now is public record.

We stopped an individual at Fort Lauderdale with $5.5 million in $20's. His later records reflect that he moved $150 million in cash himself, in cash.

Senator D'AMATO. He put it in his own private plane?

Mr FAGAN. Yes, private Lear jet.

Senator D'AMATO. Would you say that is the dominant way? Would you have any way of knowing?

Mr. FAGAN. The only thing we know for sure is that up until 2 or 3 years ago the Panamanian Government was returning to the United States approximately a half billion dollars in currency and it has doubled every year since then.

In 1983 it was the last figure they have returned, $1.1 billion.

In August of this year——

Mr. MCDONALD. The Miami branch of the Federal Reserve was receiving $120 million from one bank in Panama.

Senator D'AMATO. We can actually trace the flow of $120 million excess?

Mr. FAGAN. That is what the return is from one bank in Panama.

Mr. MCDONALD. That's only one bank.

Senator D'AMATO. That affords an incredible opportunity of at least disrupting the Bank Secrecy Act in Panama.

I have to talk to the President, I don't mean our President, but I mean Barletta, he is a former World Bank Vice President. That's not nice.

Mr. MCDONALD. They have to elicit the services of a financial institution in the United States to handle it or they have to transport it.

There are no other options to move their funds offshore.

You cannot wire transfer funds unless there are moneys in the accounts.

Senator D'AMATO. Say it again. Every month——

Mr. MCDONALD. Every month from Panama the Miami bank of the Federal Reserve is receiving $120 million in U.S. currency.

Senator D'AMATO. That should be a priority with us, too, in dealing with Panama.

Mr. MCDONALD. The "Pizza Connection" case in $20's, the amount of money that it would take to pay for that heroin would weigh 80 metric tons.

That is the type of logistical problems facing narcotics enterprises.

We are not talking about $1 million in household terms which may be an incredible amount of money but is nothing in the narcotics industry.

This past summer the Colombian Government destroyed a processing plant in the jungle and destroyed 14 tons of U.S.——

Senator D'AMATO. Do we know whose organization controlled that in Colombia?

Mr. MCDONALD. I believe we do. In terms of wholesale price, in terms of the amount of money going to the Colombians and not the 8 or 10 time increase in terms of——

Senator D'AMATO. You are talking about the floor that they get.

Mr. MCDONALD. Right. The amount of money for that cocaine would weigh more than 28,000 pounds in $1 bills.

This is far, far more than any organization or person could transport in total.

Senator D'AMATO. Consequently, what you are coming to is that the money laundering schemes are critical.

Mr. MCDONALD. Absolutely. If they can reduce it to $100 bills that reduces the weight by 80 percent.

Senator D'AMATO. They don't have 50 little guys running around to supermarkets; do you know their methods?

Mr. MCDONALD. Yes, they are as ingenious in trying to find new ways to launder money as to finding new ways to smuggle narcotics into the United States.

Senator D'AMATO. Are we equally ingenious in identifying the sources, et cetera.

Ms. TISCHLER. If I may insert, TFLEC is located in my division at Customs and for an example, I had my national list run some numbers for you.

They completed over 239 reports last year which in itself sounds like a small amount but they identify possible illicit movement of $2.5 billion as well as 73 individuals and 30 corporations connected to that movement.

All of that information went out to the IRS, DEA, Customs, and the FBI. That's a tremendous amount of money moving around with all of those individuals and individuals connected.

We are attempting to coordinate how they are operating.

Senator D'AMATO. How could we make your job an easier one? What would you like to see to improve your capabilities?

You have been out there and worked with undercover agents and are in the IRS special units and are doing the work in charge of

extradition, doing the work in terms of financial investigation; the three of you, what would you like to see or can't you tell me?

ALL TOOLS USEFUL

Mr. McDONALD. Any and all additional tools will be extremely helpful.

These cases here were put together by the agents in the field working together and new laws and closing of loopholes have aided.

For example, the Global Union Bank here in New York pled guilty to a misdemeanor. There was over $1 billion going in that bank in approximately 10 weeks.

Banks in the future may not have that luck surely. These are no more misdemeanor acts but are felonies.

Banks face the prospect of being found guilty of a felony.

In the State of New York a felon cannot be a trustee.

These are the risks that financial institutions now face as a result of legislative change and it is time that the financial institutions become aware of their role.

Mr. FAGAN. You notice that we are kicking about vast amounts of money that the organizations are dealing with.

Basically they are very high budget organizations and we are not.

Basically we work with the parameters of the money and resources available. We——

Senator D'AMATO. That's why I called for Mr. McNamar's resignation. You know that. He wanted to cut your budget.

Mr. FAGAN. I am not getting into that.

Senator D'AMATO. I suggest that you not say that then. I can say that but you can't.

Mr. FAGAN. The resources available to us are being used at the maximum level.

If the message could be sent out to the judiciary, what we would like to see is that the judiciary equate money laundering activity with the same strength as the guy with the 10 kilos of drugs.

Senator D'AMATO. In other words, that there be felonies attached to that.

Mr. FAGAN. No, that the sentencing be the same and if the man moving the cocaine is getting 15 years then give the same man financing the cocaine the same 15 years.

Senator D'AMATO. Instead of the sentences with parole and probation.

I remember one of the sentences and it seems to me that was not much of a sentence for the amount of money moved, running into the tens of millions and the sentences were 3 to 4 years maximum in prison.

You are saying that the money laundering should be as stringent as the people caught with the narcotics.

Mr. FAGAN. Yes; the man making the $4 million on a particular—doesn't mind doing 4 years in jail. He will get out and have the $4 million offshore some place.

Senator D'AMATO. And if he faces $4 million——

Mr. FAGAN. He will be quite an old man when he gets out or that $4 million may not be there and he may provide us with testimony.

Senator D'AMATO. So that you can break the money laundering at a higher level.

Mr. MCDONALD. The first Colombian national ordered extradited by the supreme court of that country was ordered extradited as a result of an investigation along with——

Senator D'AMATO. What charges does he face here?

Mr. MCDONALD. Title 31 and related charges.

Senator D'AMATO. What is the maximum?

Mr. MCDONALD. It's way up there. I don't know the total of years.

His brother was recently sentenced to 8 years in prison on the same case.

His trial is scheduled for next month and the other individuals extradited out of Colombia, three out of four were on money laundering.

Senator D'AMATO. So that it gets down to the core of what you are saying that even though we are having some success with extraditing, because in the one case the guy said he would serve the 52 months on his head but if he has to face 20 years——

Mr. FAGAN. That is right, because the money doesn't mean that much to him then.

Ms. TISCHLER. One of the problems is that money laundering is a white-collar crime and not a violent crime but we saw enough money moving around in south Florida that people were being killed for the money and subsequently it becomes a violent crime because of the effects on people as a result of the manipulations.

Mr. MCDONALD. Laundering has been fragmented and is picking up all throughout the United States.

Those communities who say that they are clean with drugs you have to find a high crime area.

Senator D'AMATO. Let me thank the panel and your work in a very, very difficult and oftentimes frustrating undertaking.

I assure you that your testimony was very useful to this committee and we are ready to help you in any way we can.

I commend you with respect to what you have done.

I hope that you help sensitize the public as a result of this hearing today.

[Brief history of the Robert S. Walker investigation follows:]

ROBERT S. WALKER INVESTIGATION
(MAY 1980-JULY 1981)

After being released from Federal custody on drug and mail fraud convictions, Robert S. WALKER, in 1976, borrowed $10,000. According to his own statements, this was his only capital. By 1981, Robert S. WALKER, through an offshore trust and Florida corporations, owned or controlled the following assets:

- a small public airfield with cement strip and several hangars;
- a fleet of vehicles;
- a fleet of at least six aircraft;
- a $100,000 home;
- an island in the Bahamas;
- an offshore bank;
- a citrus grove with grass landing strip;
- a yacht.

This was accomplished through the use of a series of interlocking corportations and legal entities financed through illegal activities, particularly the importation and distribution of controlled substances and the smuggling of currency.

In addition to the foregoing assets, WALKER also owned or controlled the following businesses:

BRITISH WEST INDIES CORPORATION is a Florida corporation incorporated on September 7, 1976, with Robert S. WALKER as Secretary/Treasurer. In its last annual report it listed among its officers Doris ADKINS and Robert S. WALKER.

ROSEWOOD TAMPA CORPORATION is a Florida corporation incorporated on May 9, 1978, with Doris ADKINS and Robert S. WALKER as officers. In February 1980, this enterprise purchased 201 Debbie Lane, Lutz, Pasco County, Florida, for Robert S. WALKER and Doris ADKINS to use as a base of operations.

B AND D LEASING, INCORPORATED was originally incorporated as B.W.I. LEASING, on January 11, 1978, by Doris ADKINS and Robert S. WALKER. On April 19, 1979, the name was changed to B AND D LEASING. Doris ADKINS and Robert S. WALKER remained offfcers of the corporation. The sole and only business of B AND D LEASING was to provide, by purchase and lease, equipment, trailers and vehicles to the BRITISH WEST INDIES CORPORATION and its associate businesses.

NORTH TAMPA AIRPORT, INCORPORATED was founded on June 27, 1979, with Doris ADKINS as President. Its business was represented to be the operation of NORTH TAMPA AIRPORT. Robert S. WALKER managed NORTH TAMPA AIRPORT as an employee of NORTH TAMPA AIRPORT, INCORPORATED.

TURKS AND CAICOS FIDELITY TRUST was a foreign legal entity chartered in the Turks and Caicos Islands on May 7, 1979, to do banking business. The purpose of this business was to facilitate the movement of money into and out of the United States illegally, and to further the violation of other Federal laws. Robert S. WALKER was the true owner of these enterprises with Rudolph KEY, a foreign national, acting as President of this enterprise on behalf of WALKER.

TNCA TRUST was a foreign entity created by Robert S. WALKER to be the paper owner of the other enterprises. WALKER was the true beneficiary of this trust. The primary purpose of these foreign enterprises was to hide the true ownership of the other entities from public view and to protect them from forfeiture. It was one of the intentions of the conspirators to use foreign bank secrecy laws to shield themselves and their activities from detection and prosecution.

The TNCA TRUST and the TURKS AND CAICOS FIDELITY TRUST LIMITED entitites were the registered owners of a citrus grove located in Orange County, Florida. The grove contained a grass aircraft landing strip used by Robert S. WALKER and others to further or facilitate illegal activities.

These enterprises bought and leased aircraft from outside the State of Florida. These aircraft were used in interstate and foreign commerce as well as the narcotic smuggling ventures.

The pattern of racketeering and the enterprises were interrelated. The racketeering acts financed and were raison d'etre for the enterprises. The enterprises were a cover for, and provided the physical resources used in, the racketeering activity. The enterprise and the "racket" were symbiotically feeding upon one another.

The criminal enterprise involved was more than a simple drug conspiracy. Its growth mirrored the growth in sophistication of the Florida-based drug connection. Legitimate business interests have been utilized to provide a "front" for, and the resources to conduct, the illegal activities. Artificial increments to Florida's economy have been created by these activities.

Conduct of the enterprise and conspiracy activities require a division of labor and responsibility. On the legal side, WALKER used financial advisors, management, pilots, mechanics and laborers. These employees doubled as drug dealers, pilots, off-loaders and couriers. A private investigator was used to screen employees for the enterprise, and as a negotiator to arrange freedom for an arrested associate of the "dopers".

The assets of the enterprise were fundamental to the diversification of the criminal activity. The drug conspiracy was rivaled by the smuggling of currency for third parties. The creation of the offshore banking interest not only served this purpose, but was a precursor for the formulation of the foreign trust as a legal holder of the assets.

Based upon the information available, the next step in the process was to have been a move to use the enterprise exclusively for "banking and brokering." The plan was to use shares of stock in the FIDELITY TRUST LIMITED as a medium of exchange. This would have provided an excellent method of accounting for the movements of money in and out of the country to finance illegal transactions. "Public" trade in the stock would take the place of currency smuggling.

WALKER's organization was held together by a belief it was inviolate. WALKER's considerable criminal contacts made it likely that his operation was being considered by the drug underworld as a model for future operations. The parallel growth of the enterprises and the drug and money conspiracies is more than coincidence. The enterprises "front" for the illegal activity. They are also legitimate receptacles for ill-gotten gains. Pilots and off-loaders can be paid weekly salaries despite the infrequency of drug trafficking activities. The movement of aircraft are legitimately explained. A vehicle for growth diversification has been provided and utilized.

Statement of Facts

The evidence presented traced the incorporation or creation of each enterprise from the fall of 1976. When the central story begins, WALKER has already created, and controls all of the entities involved and we can demonstrate his involvement in narcotics trafficking.

In 1979, WALKER and a Tampa area man named ROWE are negotiating with Edgardo MORENO for the purchase and importation of marijuana and cocaine. A foreign national is acting as middleman. By March 1980, while Rudolph KEY and others are establishing WALKER's offshore banking operation, these negotiations have broken down.

In about March 1980, the "go-between" arranges for negotiations to begin between Fabio JARAMILLO and WALKER. The original agreement is for "20 Keys" of cocaine to be provided by JARAMILLO's syndicate. WALKER is to transport it into the country. Half of the shipment will be WALKER's to distribute throughout Florida and Georgia. The other 10 kilos is JARAMILLO's (and will eventually be distributed on the West Coast).

In April 1980, JARAMILLO meets with WALKER in Tampa to finalize the transaction. WALKER also travels to Bogota to meet with JARAMILLO and the syndicate he represents.

Sometime in April or May 1980, in Tampa, Walker gives over $150,000 to JARAMILLO as an advance on this deal. Seventy-five thousand dollars is provided initially by WALKER. The remainder is sent by WALKER with Scott "Doc Pine" BELLAMY, a courier, to Tampa from Miami.

From April to September 1980, many of the WALKER/JARAMILLO dealings, meetings and conversations are tape-recorded by a confidential informant. Numerous international and interstate telephone calls to further the drug conspiracy can be proven through these tapes. Moreover, surveillance observations corroborate both travel and meetings.

To insure the completion of the cocaine deal, WALKER sends Raymond ROLLINS to Colombia. In late May 1980, ROLLINS and several members of the JARAMILLO syndicate are arrested at a raid on a cocaine farm.

WALKER's Atlanta connection, John ZACCAGINO, hires a private detective to help the organization arrange ROLLINS' and JARAMILLO's release. ZACCAGINO provides the detective with $35,000 and instructions to meet with Robert WALKER in Tampa. In Tampa, WALKER gives the detective more cash and expense money and instructs him to meet with "Doc Pine" BELLAMY in Miami. At this clandestine rendezvous BELLAMY exchanges large denomination bills for the small bills the man had been given. The money now totaling $40,000 is smuggled out of the country without being reported.

John PIERRE, a "broker", WALKER, the investigator and others meet in Curacao and later Bogota. From there the investigator goes to Colombia. where it costs $90,000 to arrange ROLLINS' release. Carlos VALEZ and Pablo MILIAN arrange for the rest of the money to be paid on behalf of the JARAMILLO syndicate for JARAMILLO's release. The total costs are $180,000.

Because all of JARAMILLO's available cocaine has been seized, the parties agree to substitute an equivalent amount of marijuana, and several loads are flown into NORTH TAMPA AIRPORT. On two occasions KLEPAC and CLARK pilot separate plane loads into the airport at the same time. Under the direction of GORDON the loads are transferred to B AND D LEASING vehicles. Gus TSOURAKIS then lead-drives these convoys out of the airport. The off-loaders are paid with large cash bonuses and, in some cases, in small quantities of marijuana.

Meanwhile, WALKER is expanding his operation to include methaqualone and is looking for "depositors" for his offshore banking venture. Two episodes during 1980 begin to unravel his schemes.

A WALKER "motif" is to have one of his enterprises lease an aircraft. The aircraft disappears and is reported to local authorities as stolen. With the markings changed the plane is then "safe" to use in narcotic trafficking.

One such load, piloted by Robert CLARK, is seized by Bahamian authorities on March 2, 1980, with about 800 pounds of marijuana aboard. The plane is forfeited to the Bahamian Government.

On April 26, 1980, KLEPAC steals the airplane from a Bahamian field. It is flown to NORTH TAMPA AIRPORT by KLEPAC, where employees are instructed to remove its markings and re-mark it. It is then flown to New Orleans where it is seized by Customs. John WALKER, Robert WALKER's son, is the pilot.

Based upon this and other evidence provided by Customs, Bahamian authorities strip the bank of its charter in August 1980. When WALKER is able to resume banking activities or about November 1980, he is desperate for new capital.

An undercover operation in March 1981 leads to WALKER's arrest while he is trying to smuggle $500,000 out of the country. WALKER believes the money to be narcotics proceeds. During the course of several taped conversations, WALKER details the use of the orange grove and airport for clandestine flights, admits to his own experience in narcotics trafficking, and asks the undercover agents if they can provide him with a quaalude formula for a laboratory he is setting up, and details the manner in which his offshore holdings are used to secrete his money and ownership of the American assets (see Exhibits, Tape Excerpt 1-6).

Search warrants issued in March 1980 result in several significant seizures. The most important are: several documents and records reflecting loads of drugs, bale weights, payments, etc., and several items on drug production and distribution. Four ounces of cocaine (80 percent pure), and about 800 quaaludes, are found in the personal safe of WALKER and DORIS ADKINS, his live-in girlfriend.

Walker: See, See, what we do, and I'm telling you the biggest secret in the world and he knows it and she knows it, so I'm not...What I've done is, I've created a blind trust in the Turks Islands with the bank. Under, under the bank. Now the bank has trust powers and because the trust has the same facility of secrecy under the, under the law, as the bank account does, so to speak....And then for my further protection, I then made Mr. Trenchard in Nassau, as the actual trustee.

Logan: Okay. That's the Larry Trenchard?

Walker: So, what you have is, you have an attorney's confidentiality there, plus, the secrecy of the banking act, and then you know, because you have no taxes

Logan: You've actually got it going from, you've got a blind trust from that end of it. I'm assuming we're talking about this Caicos thing....

Walker: Yeah, right, um

Logan: But then again, you've got it transferred to where Rudy would do it.

Walker: But he is the trustee. In other words, see, he is....

Logan: Oh, okay.

Walker: He's the secretary of the bank, but he is the physical trustee. So what you actually have is, you have the attorney's confidential relationship, plus the secrecy of.....

Logan: Plus, the secrecy of the banking act.

Walker: ....the banking act and then what you do is, is: Most everything that we have is buried in that trust. If somebody ever came and looked at the corporate structure, they're going to find that all of the stock ends back, is in that trust, locked up in a safety deposit box in Nassau.

Tischler: You mean, like .....

Walker: Now, you don't have any income taxes, you see, in the Turks Islands and you don't have any in Nassau as such. You have corporate taxes and that you pay, but we don't have, there's no tax. So you see, you could, you could... In the United States, if you write, if you write, if you create a trust, you don't

Walker: save any taxes and you don't have any privacy with it.// The only way you can really get help out of it is to, for instance, pay yourself a salary as the manager of the trust, or some such thing. But this is not true with this trust. I can amend it anytime I want. I can change the trustee anytime I want. I can do any living thing in the world that I want and all I do is that I give the trustee written notice of what he's to do; and then he does it. We, if we buy a piece of property, for instance, somewhere, he is the one who does it as trustee of that trust.

Logan: Maybe that's what.... Is that what Paul's talking about when he's... We've got, we're trying to get... When you mentioned property is what's ringing a bell. That's what he's talking about this morning then, ,because we can purchase property here under....

Tischler: Like your air, airport's, part of the trust?

Walker: Yeah, right.

Key: That's the trust.

Walker: My homes are part of the trust, and, and the airport.

Tischler: That's what I was telling you.

Logan: We could have the same thing here then.

Walker: Now let me come back and say: You've gotta be careful. In the State of Florida, you cannot have the bank without the trustee as an individual as an attorney, because a foreign bank cannot serve as a trustee in the State of Florida. Property or businesses or stock ownership or anything. You have to be very careful. Now that''s...that's the reason you, for the lawyer.

Logan: You've gotta put somebody up here.

Walker: No, that's the reason for the lawyer. See, in other words, see like, to give you an iilustration. All of a sudden I discovered that the original way I had this turkey set up wasn't working right. I couldn't get title insurance for instance. Because to get the title insurance, I had to tell the title company who could sign on the trust. You see, what I''m saying. Which was defeating the very thing that I wanted. But as long as you've got the attorney, you see, they can check him out and they accept his statement that he can sign; that he is the trustee of the trust. So I actually had to amend this thing...what was it, about nine months, six, eight or nine months ago.

* * * * *

Walker: You gotta be careful. Because under, under the Florida law, if you own an operating company in a foreign trust, and don't file the annual reports as to who the officers and directors are and the whole nine yards, they have a right to come in and appraise and levy eighty percent of the appraised value of that damn business.

Tischler: Jeez

Logan: Eighty percent

Walker: So, you've gotta be real stinking careful. To give you an illustration: I've got a company in the states called British West Indies Corporation and it manages the airport and it manages the orange groves, and so on, for the trust.

Tischler: Oh.....

Logan: For the trust...Oh, and you're the trust.....
(laughter)

Walker: Well, you know, yeah, and I also run the managing company. You see, but the managing company is a Florida corporation. The owner of the asssets, the owner of buildings, runway, and orange trees and the land, that all belongs to the trust. And that's no problem because those are all non-operating.

Logan: But the operating company....

Walker: But the operating is a Florida corporation. It just never makes no money.

Logan: That 's what Paul's talking when he's talking full circle.

Tischler: Yeah. Is that what the Colonel helped you set up?

Walker: No, no. I don't think the Colonel understands this. This is.....

Tischler: Oh, I wondered why we hadn't seen him lately.

Walker: This has been over about three years.

Logan: I didn't understand it until right now, and he's been whereas-ing and wherefor-ing half the damn day.

Walker: That's the big problem is, you just, you gotta watch the State of Florida. We're all walking around watching the Feds, but whith this deal you've gotta watch the State because, man, they'll come, they do it.

Logan: Eighty percent, jeez. It....

Walker: Yeah, I mean, they just take it away from you.

Logan: Just one time.

Walker: Yeah, right....and so, but it's a very simple thing. In other words, I've got British West Indies Corporation and it's an operating company and it contracts with the trustee to run all this stuff and it gets five percent for its activity. And with five percent it just loses its ass every month. It always has to get subsidized.

Logan: Love it. Love it.

Walker: So you know, and I got notice a year ago, now. It's not too bad a deal because I got notice a year ago, almost a year ago, it's almost a year ago, wasn't it? From the IRS that I was under criminal investigation. And I got notice a month ago, a month and a half ago, that it was all being dropped.

Key: Dropped. There were no grounds.

* * * * *

Walker: He is. Let me tell you something, if there's anything about the guy, he is, he is typically lawyer. He's slow. Sometimes your've just gotta go and sit and hold his hand and see that he, you know, get it dictated and then hear the clackety-clackety, you know, and we're all sitting there waiting for the papers, but that's typical lawyer. They're that way everywhere.

Logan: Well, is he bound by,

Walker: The man is a hundred and....huh?

Logan: Is he bound by their law? In other words, if he found out what was going on, he couldn't come up front with the information?

Walker: They have, no, no, in the Bahamas you have exactly the same client relationship that you have with an attorney here...Now you know, you know that accountants don't have that anymore.

Logan: Well, yes, we found that out...

Tischler: The hard way

Logan: In Wisconsin not too long ago

Walker: Well, now, let me tell you how to get around that. Make your accountant an employee of your attorney. You pay the attorney and he pays the accountant.

Logan: That's what Paul wants to do.

Tischler: That's what they're doing down here. It's not what they did in Wisconsin.

* * * * *

Logan: Well, tell you what, um, you mentioned to Bonni, five points.

Walker: Yeah.

Logan: uh, is that alright with, any extras above that or below that?

Tischler: Well, I thought it was five plus operating costs, no? I mean, fuel...

Walker: Depending on how we're gonna get it on down there, see, that's....

Logan: Okay. Well, that was one of the other things. She brought that up, I guess, she called the other night about that part.

Walker: We, you know, if, if we just wire transfer it through Panama and going routes like that, why that's all. If we're faced with physically carrying it...

Logan: Well, if you can assure me that that bank. And very frankly you have assured me. Your comment on the plane alone just about did it. But that it can go...We've got...I guess it'll be five accounts that we'll need, mostly to be wired to. What I was primarily concerned about, and Bonni put it across to you, was maintaining some control over it and not having some interference.

Walker: Yes, there's no...

Logan: If you've got it set up in that manner, then, and you've got full control over it, so I know who to come to , more than anything. I don't want to have to come to twelve islanders to...

Walker: He's the president. But I'm the complaint department.

Logan: Okay. That's, that's what I needed was the complaint department.

Tischler: Rudy, what are you doing with your life when you're not being president?

Logan: I don't see any problems at all with it, and uh...

Walker: I think that we can do a good job for you. And we, we would like...and we need this, because as I said, we don't we just don't want to get big and splashy. We are probably gonna go ahead and get a banking trust license in Nassau, which we haven't

had so far.

Logan: All right.

Walker: We've got an in-transit license which give us....

Logan: That's the other thing you mentioned to me, okay.

Walker: ...which is dollar in, dollar out, and that's not a problem to own. um-mm... But we are probably going to go ahead and get a Bahamian banking license. It, Trenchard has already talked to the people over, over at the Central Bank and they have indicated that it's fine with them. um-mm...We have been looking for rental space over there and everything I see I just keep walkaing away from. So what we're gonna do right now, because we, we cannot actively solicit accounts in the Bahamas, and I don't want to physically go all the way down to the far islands because we can do everything we need to do right there in the Bahamas...

Logan: No, the Bahamas itself.

Walker: And what he, and what we have now are in-transit licenses with the Bank of Montreal. And he is going back and asking them to broaden it out so that we can also use the bank of Nova Scotia. And so, that everything gets depositied in an account of ours there, and you know, they're both good, big banks. There's no problem there that anybody's gonna find. But, as I said, we are probably gonna go ahead and... but anyway, what I was going to say is that we have elected, right this minute, to just go ahead and continue to do just like we're doing and using the attorney's office and, and his facilities, and so on. We've been looking and looking and just can't come up with the right kind of thing.

Logan: Okay, alright. Are you gonna have, or have you thought about, frankly, and it might be a dumb question. If it is, correct me onit. Have you thought about any security? Are you going to use the, his office...I'm really talking about...

Walker: We're going to use the Bank of Montreal's vault.

Logan: Okay, alright.

Walker: It's a lot bigger than, and better than any that we, you know, it's uh...and all accounting will be done over there in their steel vault.

Logan: Oh, okay.

Walker: All I'm saying is that as far as the, the address and so on, we're gonna use the attorney's office.

* * * * *

Walker: We, you see, we've got a little old airport up there that has, it has good facilities and we have real good maintenance facilities and we don't do any outside work. We just do our own.

Logan: Well, Bonni tells me that it's nice and exposed and you can see a hell of a long way from anywhere.

Walker: Yeah, but you can see the other people too. See, in other words...

Tischler: Well, no that's what he's getting at...

Walker: I never like to operate at night cause I can't see who the hell's out there.

Logan: That's the point. That's the point I like. That you can see what's out there and what's coming.

Walker: That's right, you know, and if, if the wrong...If something is sitting around that, that we think is kinda strange, we just go look at it, you know.

Logan: Damn right.

Walker: I mean, we just go right out and look. I got, I gotta tell you something.

Logan: Well, that just sounds okay.

Walker: The only time that I've ever known of a problem, is, I got a phone call from a guy, and I...This is when the office was downtown, but I was at the airport, and the man wanted to speak to the owner or the manager, whoever was in authority. And, I, I went to the telephone and he said, "I'm not gonna tell you who this is, but, "he said "I make a hobby of listening to the Feds." He says, "they have got my brother locked up for something that he didn't do and, " he says, "I just make, I make it, I stay up every night and listen to them." He says, "I've got every conceivable thing to listen to them with and, "he says, "I figured I better call you up and tell you your airport's staked out." So, he says, "so if you're doing something you shouldn't do, you better be changing it."

Logan: Oh, jesus, put that man on the payroll.

Walker: Yeah, you see, we were not doing a thing in the world. And when we are, we've got scanners going and every other goddamnthing, you see. But we weren't doing a thing in the world. But I immediately came out and started, and, looked. And you know, started looking and sure as hell, you know, they were out there.

* * * * *

Logan: Especially in Forida. I mean for every damn private airport, you've got there's somebody looking at it some time or another.

Walker: There's no place to hide...

Logan: That was another thing I was going to get into, so...

Walker: ...around there. So you see, you can just kinda scoot around and, and a lot of it is undeveloped fields, you see. And just, there's just no...

Key: You can see all over.

Walker: There's no, you can get in an airplane at 500 feet and there is not a living place you can hide a cruiser or a car or...

Logan: Well, do you think that'd be necessary on these, to do something like that.

Walker: We're, we're gonna go from somewhere else, anyway. But that's not...

Logan: Oh, okay.

Walker: ...but I'm just, I'm just...that airport, as we go along. There's a couple things that we have. We've got a strip in Panama that belongs to some friends of ours and we gave them some money a while ago and they improved it a little bit. I really haven't any idea what we we're ever gonna do with it, but it's only about sixty miles from the border.

Tischler: Yeah, I told him about it.

Walker: And, it's there.

Logan: Well, that is getting to be a favorite, but it's simply because of the islands seem so complicated and they did have problems there for a while. Not just us, others too. Panama might be very...be more problem in the future.

Walker: Well, uh. One thing about Panama is that you can get, you can get to the General and he'll cut a deal. I mean, if you have a reason for that type of thing and it's just, we, as I said, we got this, we...

Logan: You talking about this, what's his name?

Tischler: Trujillo

* * * * *

Walker: But anyway. We have just made a contact with some people who have had some problems of their own and they, they've been looking for something else and they're not real large, but they're, which I couldn't handle real large, anyway. I mean, I don't have...One of the problems, is, is, as you get older you have more difficulty on the market because a lot of the people don't like to work with an older person and you start getting, getting,to working toward the streets, you see. Okay, and so, these people are willing to do what I want on a small scale, which will give me a chance to open some doors and stuff. Uh, and they're not brokers, um, so we'll see. I may, I may come and ask you for some help.

Logan: Okay, well, the only thing I'd ask there

Tischler: Well, we're pretty much staying away from grass, and we're almost all into coke, so

Walker: That's what I'm talking about, you see. And that's all I've ever fooled with in the past is grass. I've had some funny experience. You know, when we were talking about profile...

Logan: What I didn't want you doing is going outside, very frankly, and getting some of those folks on that end. If it's something that you did intend to deal in, or even thinking about, like to keep in in the family, is what I'm getting at, okay?

Walker: You've gotta finance these businesses somehow.

* * * * *

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Santa
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Barranquilla
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Bogota

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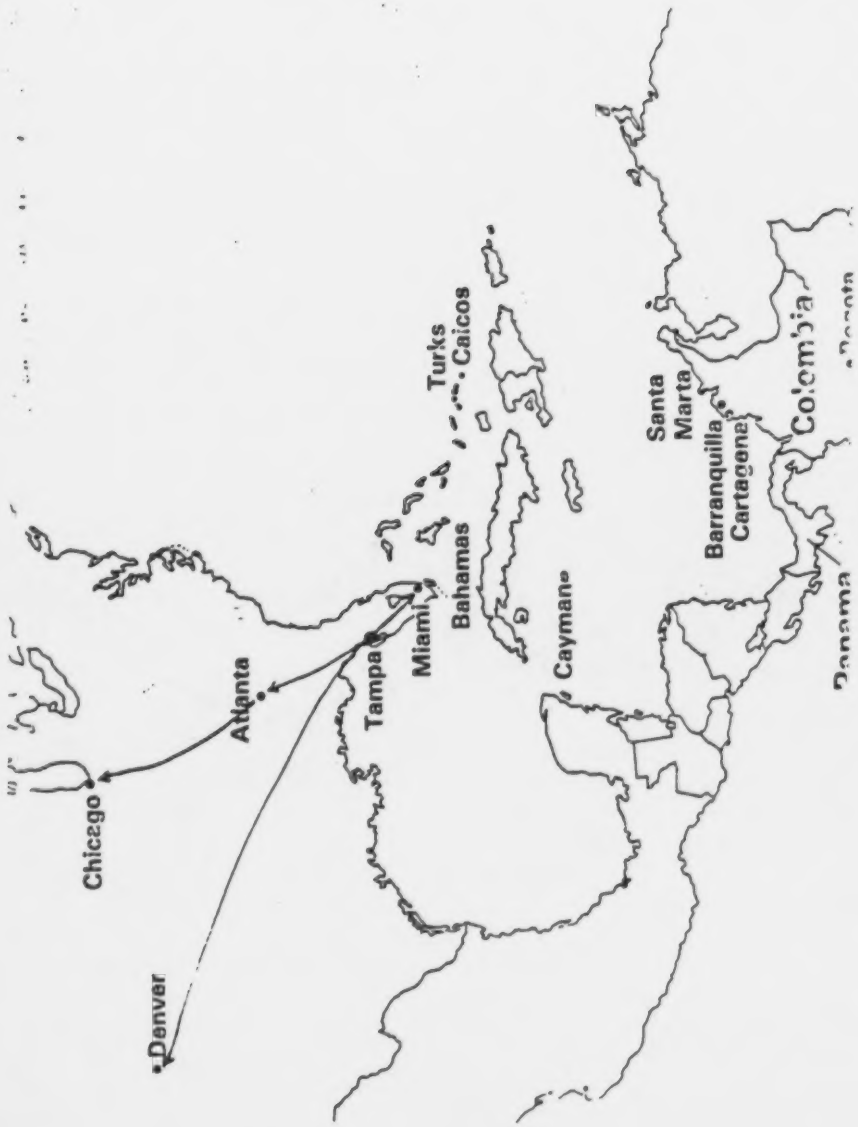
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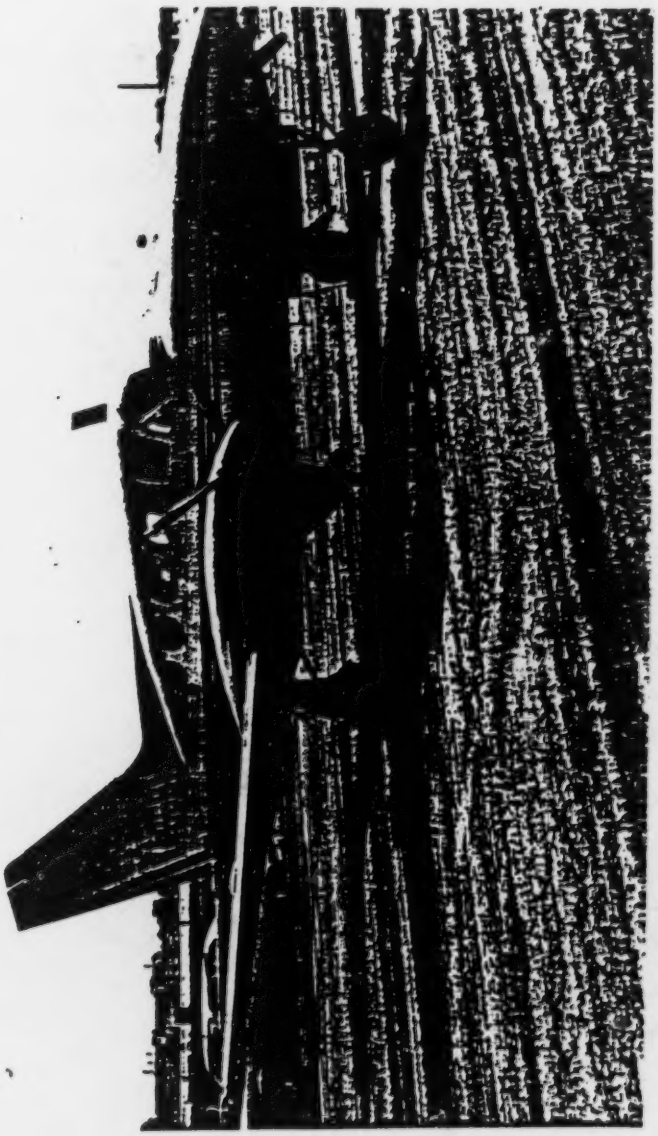

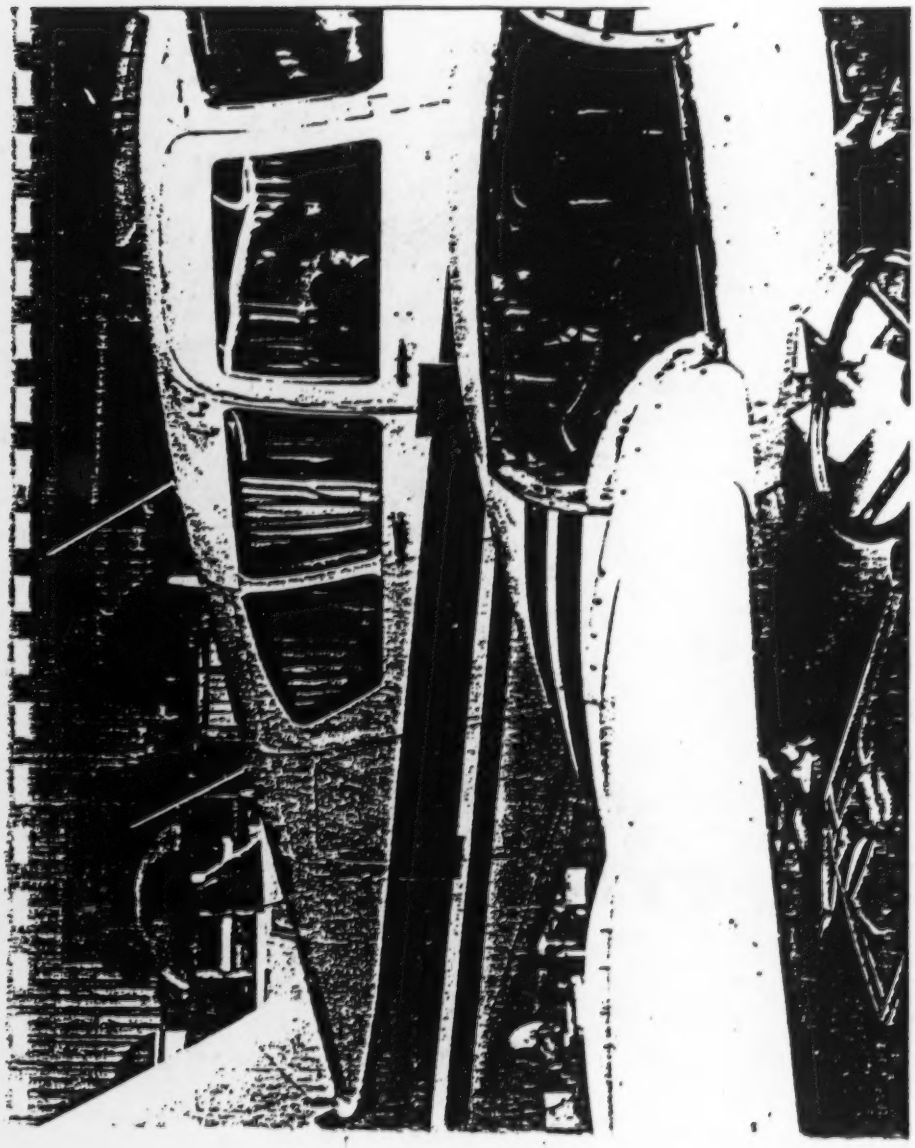

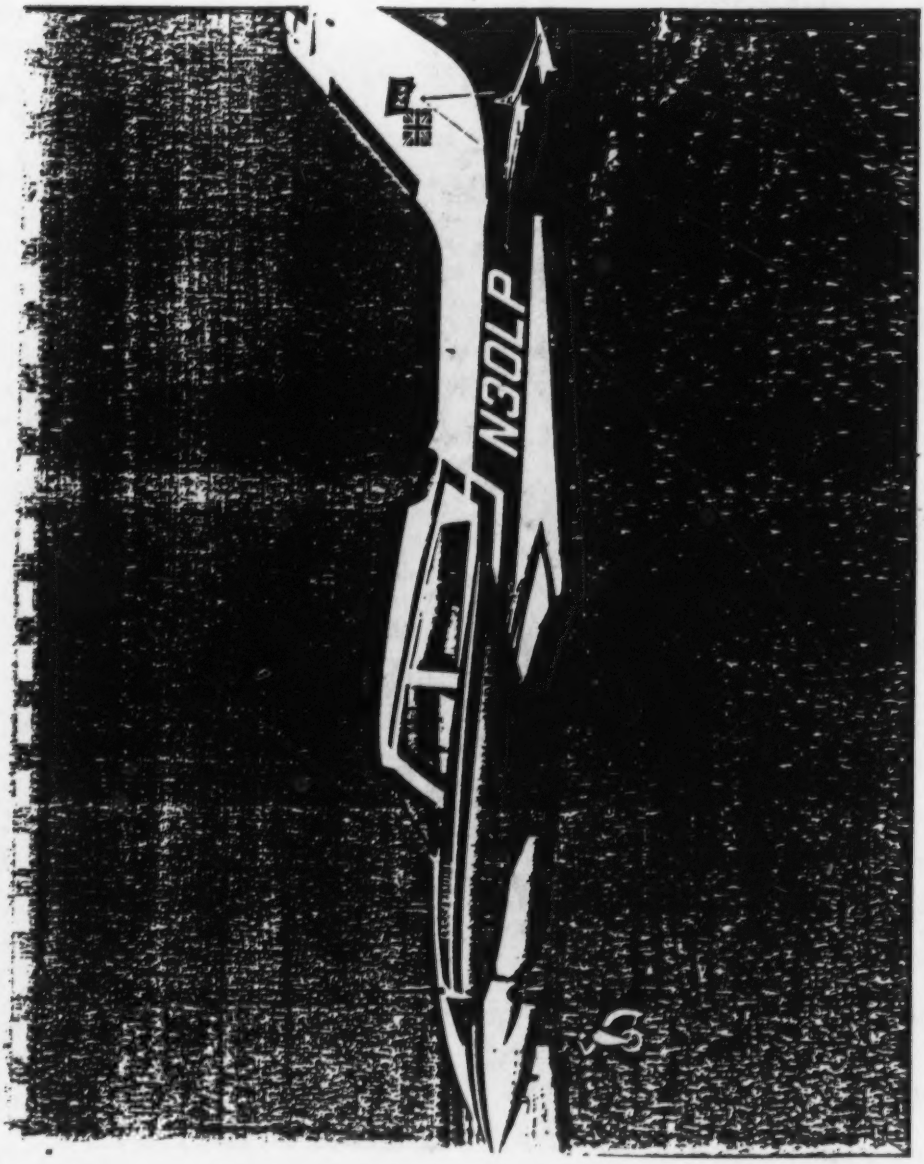
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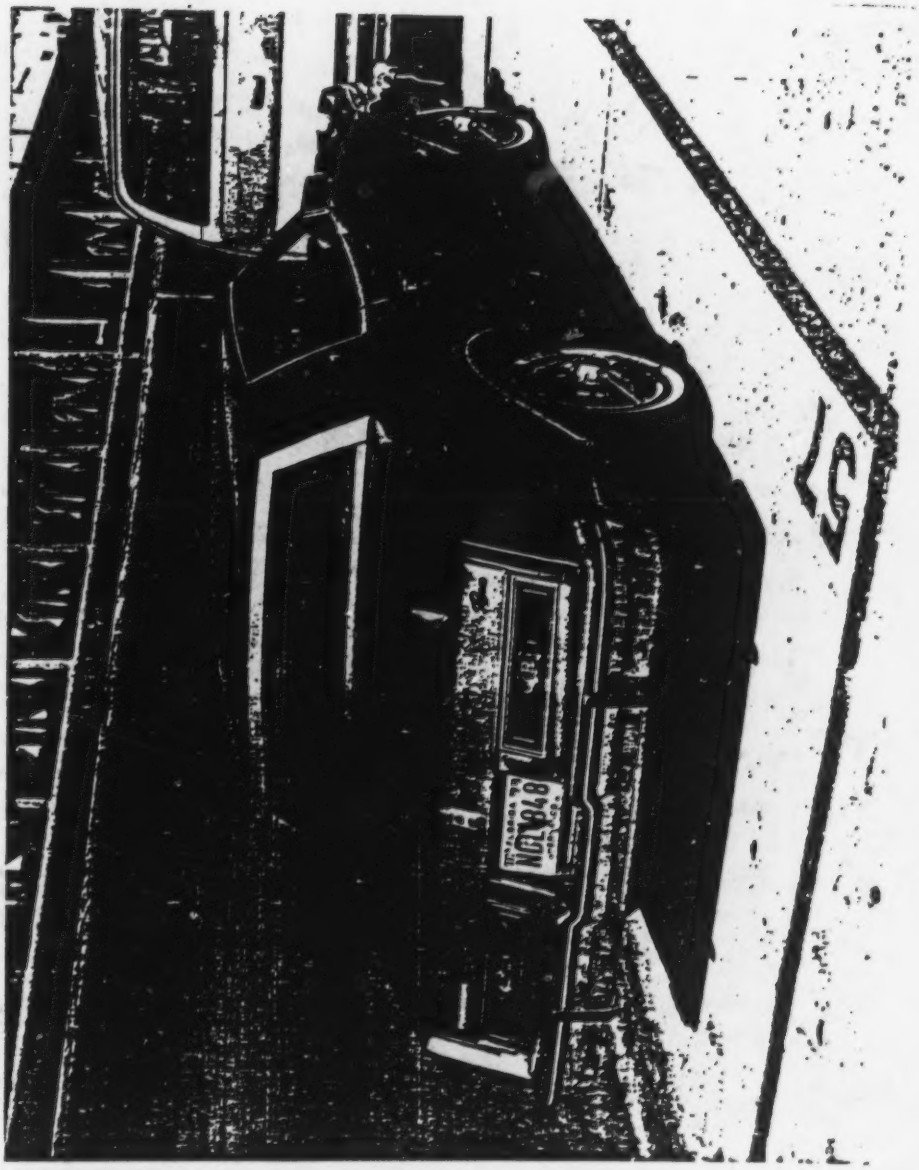
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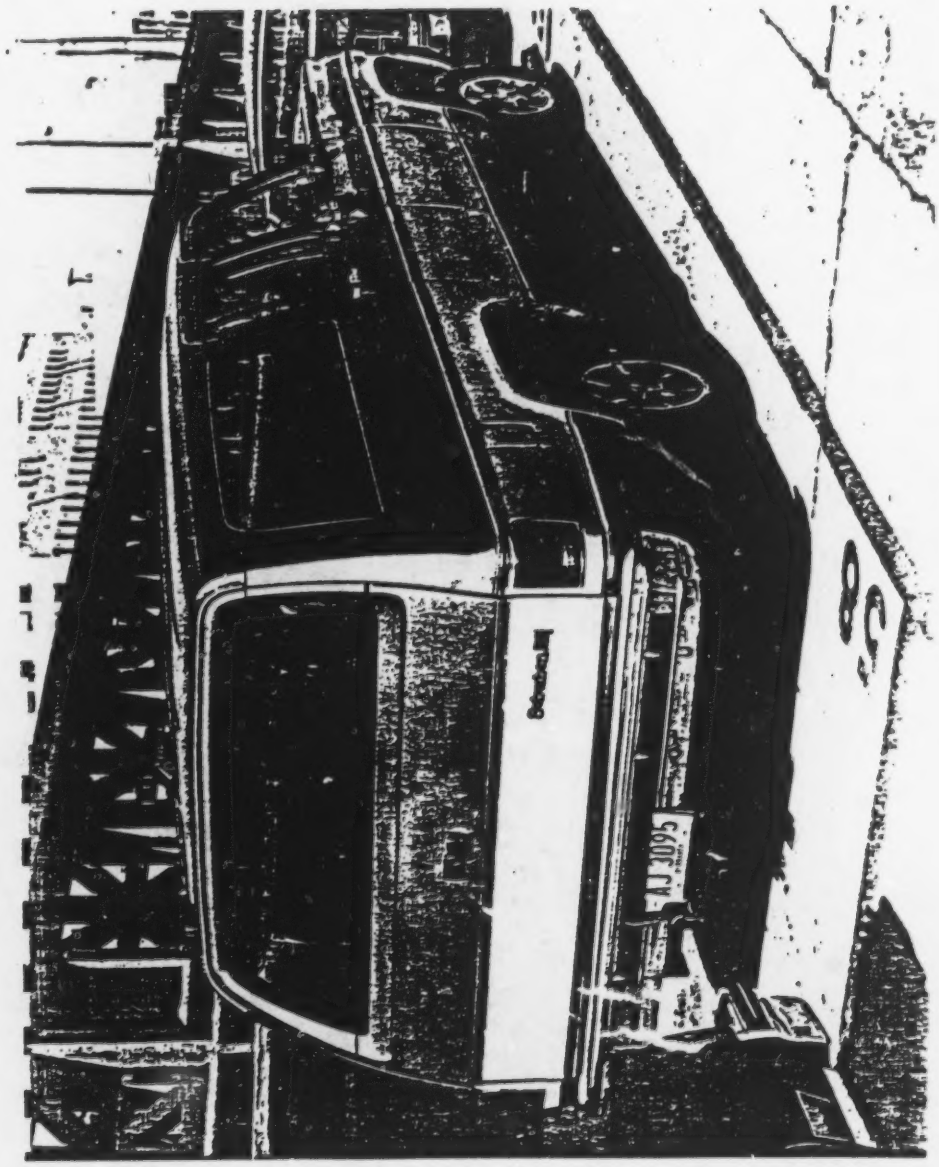
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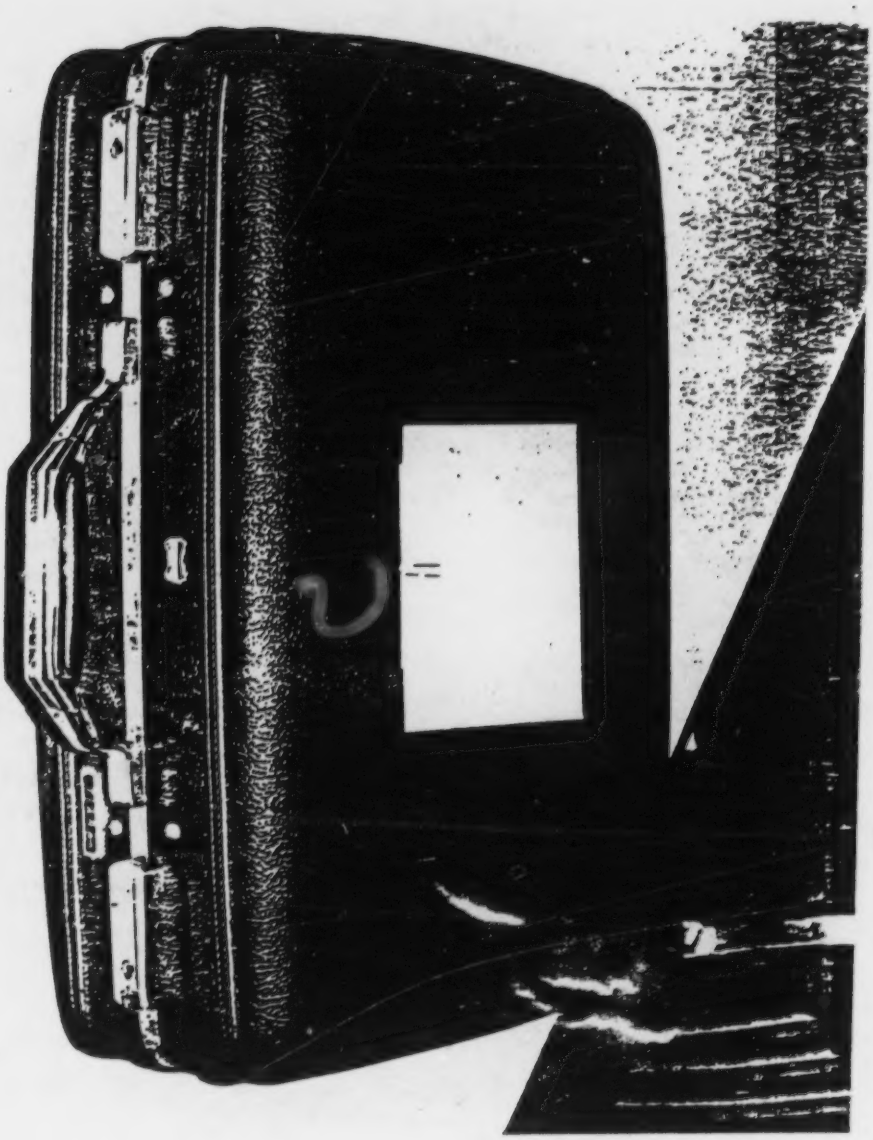

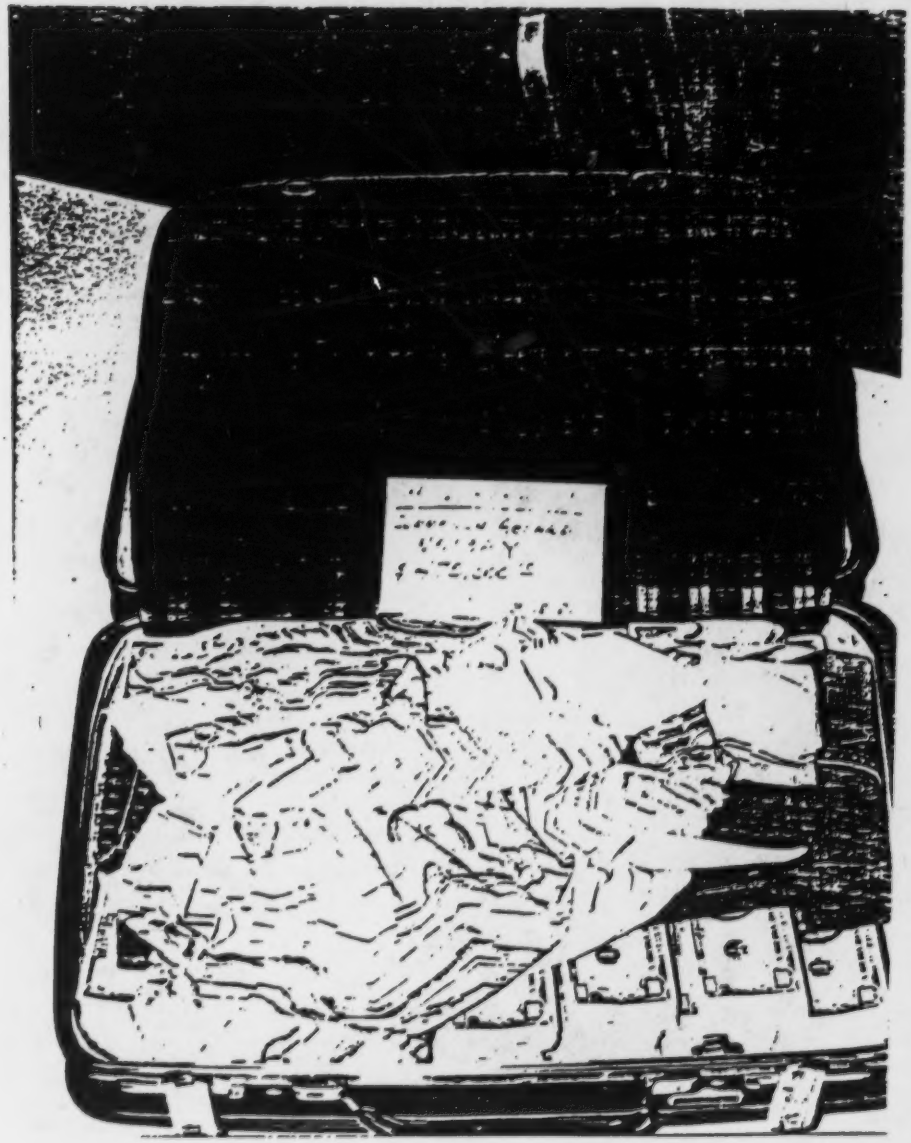

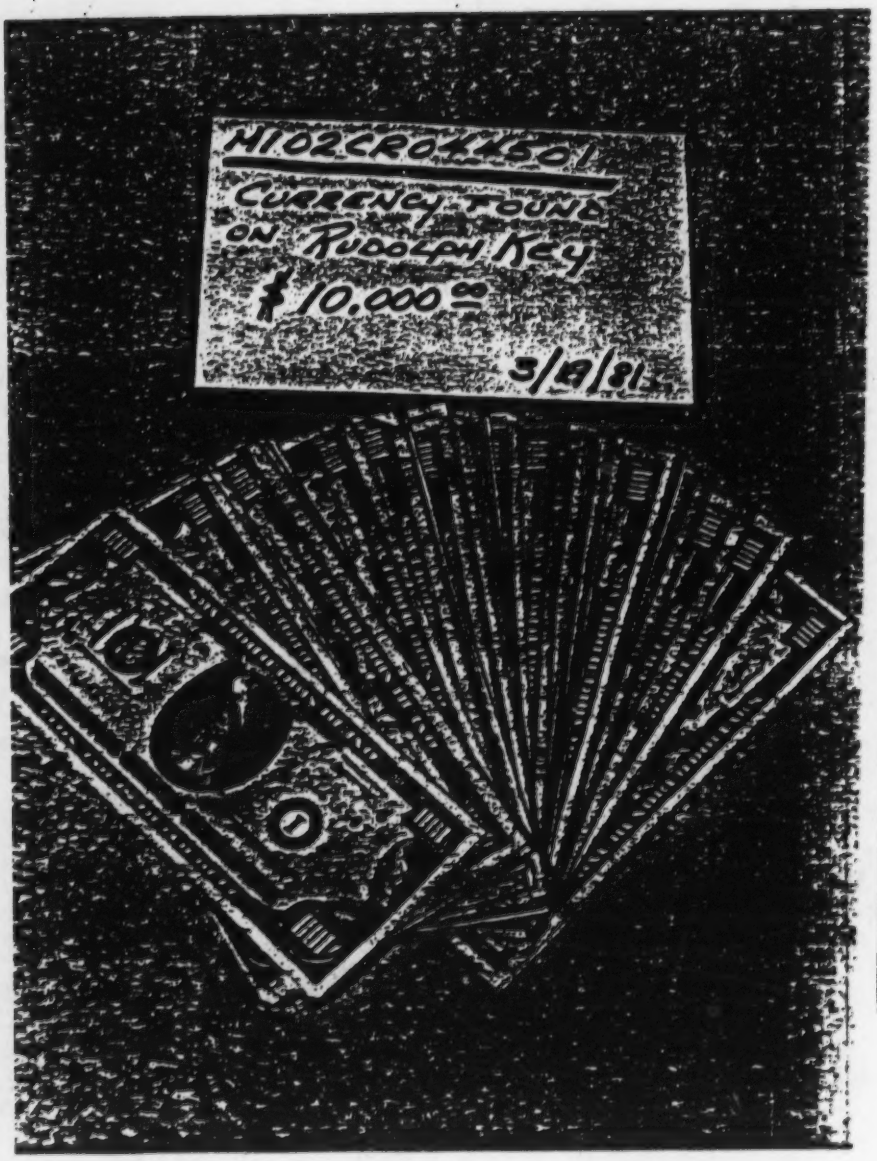
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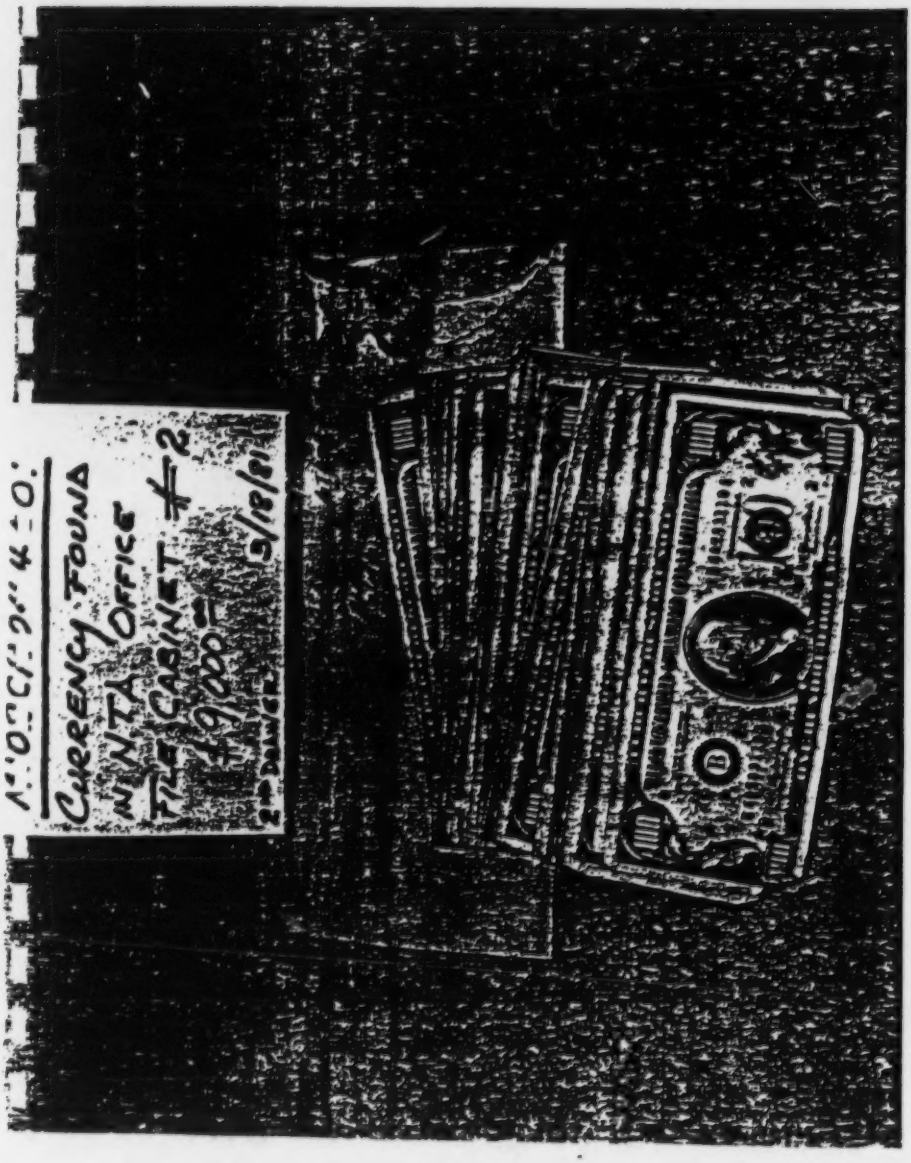
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2ND DRAWER 9/18/81

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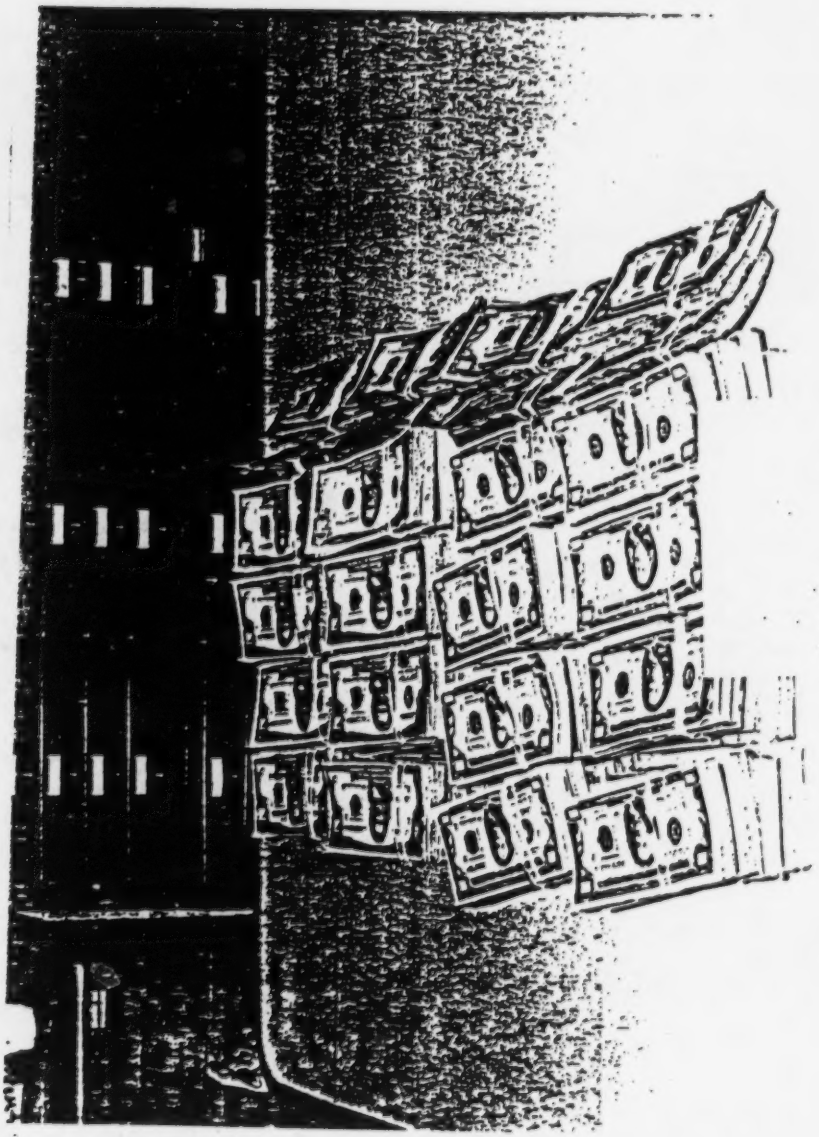

We will ask the media to observe the same rules with respect to panelist 4, and individual named "Joe" who was a convicted money launderer subpoenaed by the U.S. Senate legal counsel for this hearing.

He is a Colombian national. This is the first time that he is testifying in any proceeding.

Mr. McDonald, inasmuch as you are aware of the background of the witness, "Joe," would you like to introduce him and give us some background for the record.

Mr. McDONALD. This is an individual who was involved in a money laundering scheme.

He can give you much more insight into the particulars of that scheme than I can.

It disclosed a prevalent nationwide operation that laundered tens of millions in U.S. currency intended for delivery to the Colombian nationals for payment for narcotics.

What this organization did in order to avoid the requirement of the BSA was to enlist the services of numerous individuals around or out of one general area with a scheme to purchase cashier's checks in less than $10,000 each in various parts of the United States.

The cashier's checks would be deposited in a central bank account and wire transferred anywhere in the world.

Senator D'AMATO. If we need any help as we go along we will ask you to join in.

"Joe," called as a witness, having been first duly sworn by Senator D'Amato, was examined and testified as follows:

Senator D'AMATO. Give us some of your background, where you went to school, how you became involved in the money laundering business.

"JOE," CONVICTED MONEY LAUNDERER

JOE. I am a Colombian national and I lived in the States most of my life.

PURCHASER OF CASHIER'S CHECKS

On one of the occasions when I was back in Colombia, I was approached by an individual who I knew for some time and he offered me the opportunity to make some money to come up to the States and mainly it was the purchasing of cashier's checks, money orders at different locations, banks, cities, and in different denominations.

Senator D'AMATO. Let me ask you this: Where did you go to, the cities and how did you go and do this, and how much was involved?

JOE. The amount of money involved in each transaction, it had to be under $10,000.

Senator D'AMATO. This way you did not have to give your name, et cetera.

JOE. It depends on the city, State, and the bank. Certain banks don't require ID and other banks do.

There are certain banks that almost welcome you. Depending on the State and city the circumstances change.

The procedure is to go up to the teller and ask her for a certain amount of cashier's checks, one or two and not to go over the limit of $10,000 and give a false name, false remitter and payee and hand her the money and that is the transaction in different cities throughout the States.

Senator D'AMATO. When you say different cities throughout the States, how much money would you be responsible for changing into cash and into cashier's checks?

JOE. One individual on a daily basis could practically do between $80,000 and $100,000 depending on the city and on the State.

Senator D'AMATO. Did you move around the States?

JOE. We moved accordingly to the needs, yes, different States and different cities.

Senator D'AMATO. What is the largest amount of money that you would have laundered?

JOE. I would say on a total basis for an individual like myself I think not more than $1 or $1½ million.

Senator D'AMATO. You mean you have in the past laundered, taken $1 million over a period of time and have converted it into these various checks?

JOE. YES.

Senator D'AMATO. How were you paid and how were the money laundering operations kept so that the people did not skip out with the money?

JOE. Mainly I must state if I can, money laundering is a different group from the drug groups.

People tend to be middle class, well educated with a good appearance. They tend to be honest because of their education and family backgrounds.

The skipping with the money is something that is not done—when you go to a bank you will not leave with the money.

There was never any statement as to what would happen when you would leave with the money.

There are certain rules as in any business, you don't go out and skip with the transactions of the business.

Senator D'AMATO. Let me ask you this: You say someone who you knew recruited you. How did he recruit you?

JOE. Just by stating that if I want to come up to the States again and would I be interested in making money doing what I just told you.

Senator D'AMATO. You had a fine educational background, is that not true?

JOE. Fairly good education.

Senator D'AMATO. College education?

JOE. Yes, some.

Senator D'AMATO. Law school?

JOE. Yes, to some extent.

Senator D'AMATO. Was there any training involved with respect to a new courier?

JOE. There was no training. The person would be given certain information and where to go and which banks to visit, what areas to go to, what to say to the teller and give a lawyer's name or somebody in particular in case of an emergency.

Senator D'AMATO. What was your method of payment, was there a percentage that you received?

JOE. Yes, everybody received a certain amount of money of the total amount purchased in cashier's checks.

It would vary according to the city, according to the situation and according probably to the individual, but it also was a certain percentage of the total amount.

Senator D'AMATO. What would the percentage ratio be?

JOE. From 0.5 to 1½ percent of the total amount of the checks purchased.

Senator D'AMATO. So that you would receive as much as 1½ percent?

JOE. Yes, at the most.

Senator D'AMATO. If you had a good day and did $100,000 on that day, you could earn $1,500.

JOE. Yes.

Senator D'AMATO. What about your expenses?

JOE. They would be taken out of the $1,500. It varies according to the city. Sometimes it was the flat rate of $1,500 or plus expenses or the individual paid for the expenses and any other purchases that he had to do out of the $1,500.

Senator D'AMATO. What were some of the cities that you came to work in?

JOE. San Francisco, Los Angeles, Portland, Seattle, Chicago, Boston, New York, Florida, Miami, two or three cities in Texas, and Arizona.

Senator D'AMATO. How would you receive the money; for example, you stated that at one time you estimate that you were responsible for moving over a period of time between $1 to $1½ million.

How did you get that money, was it at one time or were you told to pick it up at various locations?

JOE. OK. The total amount of $1½ million, it could be 1 day or throughout the period of 1 or 1½ months.

Typically, somebody would get to the city and he would be called by somebody else at a hotel, or through beepers, telecommunication system, and you would be notified that there was a certain amount of money to be picked up.

Usually the courier himself is not involved in the negotiation or who is going to pick it up or who is going to deliver.

I, then, or anybody who worked along with me, would proceed to go to a prearranged place and there a briefcase, suitcase, or a package would be handed to us with a certain amount of money.

It could be in a public place in front of everybody, a private parking lot, a house, anywhere.

NO APPREHENSION

Senator D'AMATO. Did this ever cause you concern for your own physical presence when you had a large amount of cash on you?

JOE. I really can say no.

First of all, nobody knew I had the money except for one person. The physical concern from the authorities, I doubt it very much.

So if nobody knew I had it then nobody could go after me. Of course, one or two permanent people who delivered the money.

Senator D'AMATO. You never experienced any apprehension in terms of the physical dangers that might occur as a result of your having a large sum of money?

JOE. Not to the extreme of being in danger.

Senator D'AMATO. Did you ever pick up one-quarter of a million dollars at any one time?

JOE. Yes.

Senator D'AMATO. Do you think you ever aroused the suspicion of any of the people that you did business with such as the tellers?

JOE. It was all part of the logical part of the business. If I went to a city where everyone wore jeans I would wear jeans.

If you were to engage in business in a city where everybody wore a three-piece suit then I would wear a three-piece suit.

You sort of guide your conversations to something else with the teller.

Senator D'AMATO. You became a real artist at this, a professional.

JOE. It is just simple logic of being serene and not charming or anything but just purchasing a check which I think a lot of people do but they never realize that they could do it for other circumstances.

Senator D'AMATO. Can you tell us how much money you eventually moved before you were finally caught.

JOE. Personally I have taken about $1½ million myself.

Senator D'AMATO. Do you know of others who moved more than that?

JOE. I think the whole group did not move over $12 million.

Senator D'AMATO. Was the group all caught at one time?

JOE. Excuse me?

Senator D'AMATO. How were you apprehended?

JOE. I was apprehended in Operation Greenback after a lengthy investigation.

Senator D'AMATO. I understand that you had at least one occasion to go down to Panama to pick up something like $200,000 to take back to the United States.

JOE. Yes.

Senator D'AMATO. Will you tell the committee that story.

JOE. It was talked about at certain groups that if a person were to bring a certain amount of money from another country, in the event that person would be stopped by the U.S. authorities, he would sort of have a backup of where he got the money.

A person would be coming in from Panama, or anywhere in Europe, or whatever country it may be and having a certain amount of money and if the authorities were to stop you while engaging in this purchasing of cashier's checks, money orders, you could always have a backup or sort of like an excuse of where you got the money.

That is the main idea of coming in with money from other countries.

Senator D'AMATO. $200,000 is a lot of money. How did you carry that money?

JOE. I came in typical business-like attire with a briefcase, a garment bag that you might see any businessman have at La Guardia Airport.

I walked into Immigration and I had to declare that I had a certain amount of money.

I was taken to a room. In the room I was interrogated by two inspectors of where the money came from and I simply answered that it was a personal loan and they didn't have to know the source and I needed the money for immediate investments.

They did count part of the money and closed the briefcase and I walked out of the airport like any businessman.

Senator D'AMATO. In other words, they actually saw the $200,000?

JOE. Yes; and one of them actually counted the pile of the money.

Senator D'AMATO. I wonder if I might ask Messrs. Fagan or McDonald what, if any, authority you have with people coming in who have large sums of cash.

MATTER OF FORM 4790

Mr. FAGAN. They have to file the form 4790 CMIR.

Senator D'AMATO. In this particular case he had $200,000 and he said he was making a business transaction, what would you do?

Mr. FAGAN. All he can do is fill out the form and he has accomplished everything that the law has required of him. He has reported the money.

The only thing is that if we find out that the report is false is to charge him with a false declaration.

Senator D'AMATO. So that anybody could come in with any amount of money that they wanted, simply saying that they are going to make a business deal.

Mr. FAGAN. Yes; being in the free enterprise system our borders are opened.

They could bring in $100 million as long as they report it factually.

Senator D'AMATO. Do they do that then?

Mr. FAGAN. No; because they don't want the source of the money and origin to be found.

Senator D'AMATO. Suppose it was as in the case of Joe, he came right through.

Mr. FAGAN. Yes; he followed normal procedure.

Mr. MCDONALD. There is no reason or law that a party cannot bring money into the United States as long as the requirements are satisfied.

Senator D'AMATO. I don't know if a businessman could carry around $200,000 in cash. That's highly unusual.

Consequently, what I am trying to find out myself is that if he can come in that way and here you have somebody who has indicated that he has come in with $200,000 in a suitcase, and this is it and he fills out the form, and comes on in, what is to keep the others from doing the same thing?

Mr. FAGAN. Nothing, sir.

Senator D'AMATO. You don't believe that.

Mr. FAGAN. I am afraid to tip off other techniques.

What the witness has done is what a normal businessman would do and there are other methods and techniques utilized that would not fall within that criteria.

We would be reluctant to explain that in an open hearing.

Senator D'AMATO. Let me go back and I will assure you I will come back to that point.

I wonder how much cash is declared; can we find that out from Customs?

Mr. FAGAN. Yes, from the CMIR reports.

Senator D'AMATO. You are convinced that is not one of the major ways by which the people launder money?

Mr. FAGAN. Again, I would be reluctant to comment on that in an open hearing.

Senator D'AMATO. We will continue this hearing and ask that the parts of it dealing with law enforcement that are sensitive be held in camera because I think that it is important that the committee have an understanding with respect to the methods used and what you would state as some of the methods used in laundering.

Mr. MCDONALD. What Joe has outlined is using the BSA against itself.

If you have a foreign national bringing money into the United States from an offshore source then it obviously impacts any IRS specification that we may be able to apply against money that he is following here.

Senator D'AMATO. I am not totally convinced, but I understand the limitations that you have.

I certainly would like to get a better perspective on this and I will follow it up.

Let me ask you, Joe, in looking back on these transactions, do you have a feeling that you did anything that was wrong?

JOE. Well, if I hadn't done anything wrong I wouldn't be here.

Senator D'AMATO. I understand that.

What is your view of this. You kind of view it as, you know, changing money, checks, as very different from the actual sale of the drugs?

JOE. First of all, these are two completely different operations and I must state that I was not involved in any drug dealings but was in simply the financial part.

Senator D'AMATO. Do you see any connection?

JOE. There has to be some connection no matter what. The money is going down to South America and other places and I don't think that by selling hotdogs people will be able to acquire so much money.

There has to be a connection.

Senator D'AMATO. You are somewhat of an expert in this area. How could we be more effective in curtailing the money laundering operation; do you have any thoughts on that?

JOE. Excuse me but I am not an expert. I am just somebody who was involved for awhile.

Senator D'AMATO. For what period of time were you involved?

JOE. About 1½, 2 years.

Senator D'AMATO. Do you have any ideas in terms of how we could be more effective?

BANK TELLERS NEED MORE EDUCATION

JOE. A bit more education to the tellers. There are tellers where you can walk in and give her $7,000 in $20 bills and she will count it for 20 minutes and will not arouse any suspicion whatsoever.

It is just basic education on the part of the tellers.

Senator D'AMATO. Should that be—let me ask you this:

What you are saying is that there is a need for some basic education on what to do when somebody who doesn't have an account in the bank and counts out $7,000 in $20 bills, that there should be some kind of identification.

JOE. There are different cities in which a person could practically walk into three different banks and in each bank go almost to the limit of the $10,000 and nobody would have asked the person for one piece of ID, not one piece.

There are certain cities where it is very difficult to even purchase $250 in money orders.

There are cities on the east coast where it is impossible to get a cashier's check with cash but in other cities the banks try to compete for your business.

Senator D'AMATO. Would you think it would be a matter for the cities or the banks?

JOE. I would say it would be the banks asking for a photo ID which would hinder the money laundering or two credit cards.

Senator D'AMATO. You are saying that the operation as you have observed it would have been made much more difficult if some of these routine things were done such as two forms of identification and a credit card.

JOE. Yes, because you would have to identify yourself before the authorities, the bank, police, or any law enforcement agencies.

Senator D'AMATO. What can you tell us about your boss' assets; did he own property in his own name and there is something about the blue box; what is the blue box?

JOE. What question do you want me to answer first?

Senator D'AMATO. What about your boss' assets.

JOE. He has an above average life. He had a $300,000 house and had European cars, sports cars.

Since living down in the South, he owned a boat and all of the amenities that go with the water sports and at the same time his house was furnished with the best money could buy.

The blue box is an electronic device that people use mainly to save money when making long distance calls—I don't have any idea how it works but you don't pay for the calls.

Senator D'AMATO. So he was very economical.

JOE. It was trying to avoid conversation or tracking of where his calls were going. His intent was not to be economical.

Senator D'AMATO. Have you ever known of a case where a bank employee has tipped off an organization that the IRS was investigating them?

JOE. Yes, we were in an area of the United States where we had gone back frequently to purchase cashier's checks and money orders.

At one time one of the tellers actually told us that the IRS is after you, not exactly telling us that we were being chased by the

IRS, but that there was an investigation going on and people purchasing cashier's check under $10,000; so there we had the cooperation of the teller.

Senator D'AMATO. Did you know him?

JOE. No, not at all. I think it was just a friendly attitude statement.

Senator D'AMATO. Just a cooperative banker.

JOE. I don't think he knew he was cooperative.

MECHANICS OF USE OF CASHIER'S CHECKS

Senator D'AMATO. How are cashier's checks used in money laundering, are they made out in fictitious names?

JOE. The person who you buy the check for is a false name; in other words, the payee.

The remitter will always be a false name. At certain times you will have to buy cashier's checks for certain corporations which probably have and always will be false names.

Senator D'AMATO. Can they be deposited with the false names?

JOE. Of course. I can have a check made out to you, Senator, and anybody can print your name and as long as he doesn't cash it and deposits the check, nobody will ever ask for identification.

Senator D'AMATO. What happens to all of those cashier's checks; are they deposited in foreign banks?

JOE. Most of the checks are deposited in agencies of foreign banks, banking institutions do not deal with the American public, foreign nationals and these checks will be deposited there or physically taken out of the country and deposited in—outside the United States.

Senator D'AMATO. Did you ever make any deposits in Miami to foreign banks?

JOE. Yes, I did.

Senator D'AMATO. Can you tell us about the time you deposited 52 checks totaling about $52,000.

JOE. Yes; I walked into one of these agency banks with a large amount of checks and it was just like walking into any bank with two checks.

There was a list, all different names, most of the checks I would say under $10,000.

The person in charge did not ask for any identification or anything but simply tallied up all of the checks and gave me a receipt for it.

In these agencies the person who you are depositing money for, or the corporation, will never have to appear on the endorsement since this is an agency of another bank. Only a numeral will appear on the back of the deposit slip.

HIGHER-UP NEVER ARRESTED

Senator D'AMATO. Was your boss ever arrested?

JOE. No.

Senator D'AMATO. He was never arrested.

JOE. No.

Senator D'AMATO. Was there ever a court order permitting the Government to look at his books and records?

JOE. I think so.

Senator D'AMATO. Did he ever discuss with you what, if anything, would happen if you were arrested?

JOE. There was to be a simple procedure, not anything, no threat, or anything, and to call a lawyer.

According to him, bail would be paid and lawyers' fees would be taken care of.

This did not happen.

Senator D'AMATO. In your conversations with either people who may have been in money laundering or in prison that you may have gotten to know, did you get the impression that organizations operated in a similar way?

JOE. Yes; they operated in similar ways, the same manner, going out, purchasing checks, little by little tallying up the checks and taking them out of the country and depositing them in different agency banks.

Senator D'AMATO. In your opinion, was your boss tipped off, was he warned about the pending investigation?

JOE. I believe so, yes.

Senator D'AMATO. You think he was.

JOE. Yes.

Senator D'AMATO. Does he still live in the same place.

JOE. No; he is out of the country.

May I say that he was probably tipped off by the same judicial system that investigates money laundering.

Senator D'AMATO. You have a feeling that he received inside information?

JOE. No, simple legislative procedures.

Senator D'AMATO. In other words, the bank notified him that somebody was looking into his account and that the records are subpoenaed?

JOE. Yes; he knew of the investigation going on and he simply took off.

Senator D'AMATO. Let me thank you for being so candid and for your cooperation.

The committee is appreciative of your testimony particularly relating to the very fundamental policies that the banks could adopt to make money a lot less launderable.

We thank you for coming in.

The committee record will stand open for at least 2 more weeks to receive additional testimony.

[No additional information was received at the time of this publication.]

The committee will stand in recess.

[Whereupon, at 2 o'clock p.m., the hearing was recessed.]

○

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

MAR 25 1985

Dear Mr. Chairman:

This is in response to your letter dated February 4, 1985, which requested additional information pertaining to law enforcement activities relating to money laundering/narcotics violations.

Both the IRS and the U.S. Customs Service have provided replies to the Committee's questions. Rather than combine the answers, we have presented them separately with only minor editing.

Question #1

How many convictions have been obtained since 1981 of money launderers, either for violations of 31 U.S.C. 5318 et seq., or for a pattern of conduct designed to subvert U.S. currency statutes?

Internal Revenue Service

	FY 72-81	FY 82	FY 83	FY 84
Total Convictions	6	25	61	73

Prior to August 1984, the IRS Case Management and Time Reporting System was unable to provide separate statistics for CTR violations and related Title 18 violations; therefore, the aforementioned statistics reflect convictions for all money laundering activities.

U.S. Customs Service

Since 1981, the U.S. Customs Service has been involved in several investigative programs organized to investigate money laundering in relation to narcotics smuggling and other organized criminal activities. The programs include the Organized Crime Drug Enforcement Task Force (OCDETF), Operation Greenback, Operation El Dorado, Operation Cargo Net, and the Florida Joint Task Group. Records maintained by the U.S. Customs Service headquarters list a total of 707 convictions which include violations of Title 31 as part of the indictment either as a substantive crime,

(i.e. failure to report transported money) or as an addition to the substantive crime, (i.e. transportation of currency in furtherance of a smuggling conspiracy or the transportation of money in an effort to disguise the origin as the proceeds of a narcotics smuggling venture.)

On February 1, 1985, Customs and the Internal Revenue Service announced that five major money laundering operations were "severely" crippled with the arrest of 16 people in South Florida. The investigation, titled Operation Checkmate, was coordinated through the Organized Crime Drug Enforcement Task Force in Miami, and resulted in 19 arrest warrants issued against individuals for violation of Title 21 and Title 31 statutes.

Question #2

Incident to those convictions, or resulting from related drug cases, what is the aggregate value of property that has been forfeited to the government?

Internal Revenue Service

Since withholding of taxes on illegally generated income is impossible and because voluntary compliance by drug traffickers and other criminals cannot be assured, enforced collection action is sometimes necessary. Federal law gives the Internal Revenue Service the authority to take special steps to ensure all tax revenue is collected.

These steps include levies on bank accounts, and seizures of assets such as business property, vehicles, houses and cars.

IRS can also take enforced collection activity known as jeopardy and termination assessments to seize cash and other assets to apply to any tax owed by the individual in custody.

Seizure of cash or other assets to satisfy tax liabilities is a civil procedure carried out by IRS revenue agents and revenue officers. In the civil area the compliance function's efforts in the narcotics trafficking program have been successful as evidenced by the following:

Jeopardy and Termination Assessments
Narcotics Traffickers
1981-1984

Year	Total Assessments (Millions)
1981	$ 81.3
1982	147.4
1983	68.8
1984	116.6

U.S. Customs Service

Since 1981, the U.S. Customs Service has been involved in more than 1,000 major investigations involving money laundering aspects of narcotics trafficking and international cargo theft conspiracies as well as a host of other investigations involving illegal acquisition of U.S. critical technology, shipments of arms in violation of U.S. neutrality laws, fraud against the United States revenue, etc. Records maintained by the U.S. Customs Service indicate that $89,929,593 has been seized and forfeited or is in the process of forfeiture action for violation of Title 31 and $56,767,307 in various types of property including planes, boats, cars, houses, buildings, property, etc., have been seized and forfeited to the U.S. Government or are in the process of forfeiture action. A portion of these seizures is involved in the appeals process and/or litigation process and has not been finalized. However, the figures represent an aggregate value of money and property cited for forfeiture.

Question #3

Please describe the number of narcotics offenders who have been willing to cooperate with law enforcement authorities as a result of, or after, confiscation of assets. (I realize this number may be difficult to obtain, and it would be acceptable to the Committee to describe specific incidents, anonymously or by name, in which testimony by narcotics dealers has been obtained.)

Internal Revenue Service

The IRS has no way to estimate the number of narcotics offenders who have been willing to cooperate with law enforcement authorities as a result of, or after, confiscation of assets. IRS does have examples of cooperation by violators who have been subject to forfeiture and/or jeopardy and termination assessments.

Case 1

In a joint DEA and IRS case, a search warrant was executed on the residence of an individual dealing in narcotics. Financial records, crystal, vases, furniture and a car were seized under the forfeiture provisions of Title 21 Section 881. The sight of the agents seizing this property made the violator so upset that he immediately agreed to cooperate with authorities.

dis cooperation has resulted in more than 30 indictments with additional indictments expected.

Case 2

A major narcotics trafficker, who after his arrest and seizure of his assets, cooperated with Federal law enforcement officials. His cooperation resulted in a number of indictments in a significant narcotics organization. This individual cited government seizure of all his assets as one of his reasons for cooperating.

Case 3

In late 1983, a search warrant was executed on the residence of a Colombian national. This individual and members of his family were arrested. During the execution of the search warrant, over $500,000 in cashier's checks, U.S. currency and other assets were seized.

Subsequent to the indictment, the Colombian entered into a plea agreement in which he forfeited the seized items and agreed to cooperate with the government.

During the debriefing of the subject he revealed he was laundering drug monies for not one but three separate cocaine smuggling operations. Utilizing the information provided by this individual, additional members involved in the complex organizations were identified. The method of money movement and amounts of laundered monies were also documented. As a result of his cooperation, 17 individuals have been indicted on various drug, currency and racketeering charges with additional indictments expected.

In many cases it is difficult to pinpoint what causes a violator to cooperate with authorities. Several factors may be involved which include the hope of lighter penalties for the violator and/or his family and friends. We believe the seizure of a subject's assets is a factor in determining whether the subject decides to cooperate. When a person is destroyed financially, he loses his independence, power base and former friends. He is insecure about his future and is inclined to look to someone for help. In the examples above the violators may have looked to the government for help.

Several violators who have placed their assets beyond the reach of the government have steadfastly refused to cooperate.

U.S. Customs Service

Pursuant to guidelines established by the Department of Justice, as part of the Organized Crime Drug Enforcement Task Force concept, defendants are permitted to plead to the most serious violations cited against them. Often defendants are required to voluntarily forfeit all assets they have obtained as a result of narcotics generated profits. A recent Southeast Region OCDETF investigation provided an example of this process. The investigation involved a Cuban narcotics smuggler and the U.S. based distribution ring. The head of the U.S. based distribution ring pled guilty to Title 21 and Title 31 violations of U.S. law. As part of his guilty plea he forfeited two houses, three hair styling salons, one boat, one night club and four vehicles. In addition, he agreed to testify against the 32 co-defendants named as part of the criminal organization. Defendants in narcotics smuggling cases are extremely sensitive to the fact that the proceeds and assets resulting from their criminal enterprise are more frequently forfeited to the U.S. Government through criminal and civil proceedings. This aspect has prompted cooperation on several occasions.

Question #4

Please state the aggregate amount of cash brought to the U.S., as disclosed by the filing of CMIRs, during 1984. An indication of the rate of increase or decrease over the last five years would also be helpful.

U.S. Customs Service

The following is a list of CMIR filings for physical transportations of currency into the United States from all foreign locations. Please note that these figures do not include December 1984 and a portion of November 1984.

Year	Forms	Amount
1980	114,327	$15,345,934,307
1981	145,979	25,108,005,825
1982	157,188	26,658,361,785
1983	187,550	21,872,636,362
1984	195,637	19,220,649,610

I hope that the above information will be useful to the Committee in its legislative efforts. We sincerely appreciate your support of Treasury law enforcement activities.

If the Committee requires additional data, please let me know.

Sincerely,

John M. Walker, Jr.
Assistant Secretary
(Enforcement & Operations)

The Honorable
Jake Garn, Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

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